COVER SHEET

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S.E.C. Registration Number

PHILIPPINE BUSINESS BANK, INC.

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

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

Atty. Roberto S. Santos	363-3333 local 4004
Contact Person	Company Telephone Number

Month Day

Fiscal Year

SEC FORM 17 - A

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2016**

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

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

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

6. (SEC Use Only)
   Industry Classification Code:

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

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

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

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

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

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

    Yes [**x**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

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

Yes [ ]   No [x]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]   No [ ] NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as "Total Savings Bank" and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to "Philippine Business Bank (A Savings Bank)" which the shareholders believe better reflects the Bank's business thrust and focus.

The Bank's focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3 million to ₱100 million, excluding the land value on which the entity's office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. According to a recent data from the Department of Trade and Industry, SMEs account for 99.6 percent of total registered enterprises. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provide trade, manufacturing and outsourcing and services and help contribute to community and local development. Lastly, the Bank believes that the SME segment is underserved with most financial institutions focusing on the banking requirements of large corporations.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 139 branches as of December 31, 2016 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

Principal Business Activities

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

Reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank will purchase 100 per cent of the stock, assets, and goodwill of KRBI subject to the approval of a merger plan by the BSP and SEC. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2012, the BSP and the SEC respectively approved the merger.

In June 2015, the Bank entered into a purchase agreement with the shareholders of Insular Savers Rural Bank ("ISB") under which the Bank will purchase 100 per cent of the stock, assets, and goodwill of ISB subject to the approval of a merger plan by the BSP and SEC. Through the transaction PBB acquired the existing eight (8) branches of ISB. This will also help PBB establish a foothold in consumer loans via the expansion of ISB's teacher loans portfolio. ISB ended 2016 with nine (9) branches.

In July 2015, the Bank entered into a purchase agreement with the shareholders of Bataan Savings and Loan Bank ("BSLB") wherein the Bank will purchase all of recorded properties, assets and goodwill of BSLB subject to the approval of a merger plan by the BSP and SEC. With this transaction, PBB acquired the three (3) existing branches of BSLB.

Products and Services Offered

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

Distribution methods of the products or services

The Bank utilizes branches for the distribution of its deposit and loan products. The Bank has also established the Institutional Banking Group, working in partnership with the Branch Banking Group, to service the banking needs of its clients. In 2016, the Bank also established the Business Development Group to further enhance its marketing coverage and provide targeted services to its clients. The Bank's Trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Group.

Competition

PBB attributes its strong growth and attractive financial performance to the following competitive strengths:

1. Strong presence, reputation, and attention to its SME customers

The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

PBB's focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations and even its corporate culture.

Majority of PBB's branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

The Bank believes the success of this branch strategy is shown in its increased business performance. PBB's branches have increased over the past three (3) years from 100 in 2013 to 139 as of December 31, 2016 coinciding with the growth in the PBB's deposit base from ₱37.9 billion in 2013, ₱46.6 billion in 2014, ₱55.0 billion in 2015, and ₱58.9 billion in 2016 and its portfolio of loans and receivables from ₱31.6 billion in 2013, ₱40.1 billion as of December 31, 2014, ₱41.7 billion in December 31, 2015, and ₱51.4 billion in December 31, 2016.

Of equal importance to PBB's current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch's catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

In line with its view that most SME clients have unique banking requirements with respect to bank transactions that require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. This contrasts significantly with the trend to automate banking transactions. PBB believes that customer interaction and service will remain key ingredients for its growth.

2. Effective capital utilization

Aside from interest income from its loan products, PBB is focused on earnings generation from its treasury operations. PBB's treasury operations, aside from ensuring liquidity and managing liquidity risk, remains actively involved in the trading of domestic treasury debt, corporate bonds, foreign currency denominated bonds and other financial instruments and is expected to generate income especially during periods of weak loan demand or excess liquidity arising from branch deposit taking efforts.

In 2013, PBB's AFS and trading portfolio amounted to ₱8.8 billion, ₱7.9 billion in 2014, and ₱9.1 billion in 2015. As of December 31, 2016, the AFS holdings and other trading portfolio (FVPL) of the Bank reached ₱7.1 billion.

3. Solid lending policies and practices

Despite the growth of PBB's loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB's relationship and community based approach to lending, which takes advantage of branch and account officers' position in their respective communities to analyze prospective borrowers' reputation, business performance and risks, and other credit evaluation factors.

The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

Over the past three (3) years, PBB's average NPL ratio was at 1.57% in 2014, 2.88% in 2015, and 2.54% in 2016.

4. Sound balance sheet well positioned for growth

PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2014, 2015, and 2016 was at 86.0%, 75.9%, and 87.3% respectively.

5. Strong base capital is the foundation to PBB's increasing size

PBB's Total CAR and Tier 1 CAR was at 20.8%, 17.7% and 17.0% and 19.9%, 17.0%, and 16.2% for the years ending December 2014, 2015 and 2016, respectively.

The Bank's capital for the years 2014, 2015, and 2016 was at ₱8.0 billion, ₱8.5 billion and ₱9.6 billion.

With its capital structure, the Bank is well positioned to undertake future fund raising efforts after the Offer, to finance further expansion plans and comply with the capital adequacy requirement set by the BSP.

6. Highly competent and experienced management team

PBB is managed by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. On average, each of the Bank's senior officers possess about 28 years of experience in banking and finance. Similarly, PBB's branch officers have an average of 16 years experience in branch banking.

With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank's target clients and their banking needs.

Sources and availability of raw materials and the names of principal suppliers

This is not relevant to the operations of the Bank.

Customer Concentration

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer whose loss would have a material adverse effect on the Bank.

Transactions with and/or dependence on related parties

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and ATM Business Card Design. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

Government approval of principal products or services

The Bank has no outstanding application subject to government approval.

Effect of existing or probable governmental regulations on the business

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Costs and effects of compliance with environmental laws

Not applicable.

Employees

As of December 31, 2016, the Bank has a total of 1,373 employees broken down into the following categories:

Executives	70
Managers – Operations and Support	268
Managers – Branch / Marketing	174
Staff	861
Total	**1,373**

For the ensuing twelve (12) months, the Bank anticipates to hire an additional 318 employees broken down as follows:

Executives	2
Managers – Operations and Support	85
Managers – Branch / Marketing	58
Staff	173
Total	**318**

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

Financial Risk Management Objectives and Policies

Enterprise Risk Management Framework

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

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

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

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

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

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

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

Credit Risks

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

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

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

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

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

In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank continues to conduct a bank-wide credit process streamlining endeavors to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification. The Bank implements the revised Internal Credit Risk Rating System as part of its preparation on PFRS 9.

Market and Liquidity Risks

The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.
The Bank has an automated system for the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

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

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

Operational Risk Management

"Control first before transaction execution" – This is PBB's motto and being fostered among all PBB employees.

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

The main goals of Operational Risk Management are:

- Develop an internal risk assessment methodology and operational risk data base management system linked to the operational risk management and business planning process
- Strengthen the risk control system to reduce risk, manage disruption, ensure business continuity, reduce overall costs and improve service efficiency
- Ensure compliance with other local and global risk and capital regulation (e.g. MORB of the BSP, BIS) at all times i.e. under normal and stressed operating conditions
- Streamline the PBB risk governance structure for the control and oversight of operational risk

- Empower business units with the responsibility and accountability of the business risks they assume on a daily basis
- Institutionalize a risk culture and sensitivity to potential losses including people empowerment, accountability and ownership of risks
- Minimize the potential for loss to avoid potentially large or catastrophic operational risk losses thus ensuring that capital resources are preserved;
- Create an organizational culture that places high priority on effective operational risk management and adherence to sound operating controls.
- Promote high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of risk awareness and internal control

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

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

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

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

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

Item 2. Properties

The Bank owns the land and building on which its head office is located. This head office is located four-story building on a 1,300 square meter property along Rizal Avenue, Grace Park, and Caloocan City. The Bank also owns the land and premises on which five (5) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, in Imus and Kawit, Cavite, in Luwasan, Muzon, in San Jose del Monte City, Bulacan, and in General Tinio, Nueva Ecija.

The land and premises on which PBB's branches other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

	REGION	LESSOR	COMMENCEMENT DATE	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Caloocan Region					
1	Grace Park	SMI Development Corporation	August 17,2013	August 17,2023	112,714.09	5% on 3rd yr. & every yr thereafter
2	A. Mabini C-3	Marea Ventures Corp.	June 1,2014	May 31,2019	73,205.00	10% on the 3rd ; 5% on 4th & 5th
3	Camarin	Luwell Realty & Development Corporation	June 1,2015	May 31,2020	53,085.38	5% annually
4	Edsa-Kalookan	Solmac Marketing Inc.	April 1,2007	March 31,2017	55,184.51	7% on 3rd, 5th, 7th, & 9th
5	Edsa-Monumento	New MBS Marketing Corporation	January 1,2014	December 31,2018	63,945.00	5% on 3rd yr. & every yr thereafter
6	Kaybiga	Guilmar Marble Corporation	October 21,2015	October 20,2020	46,726.60	5% annually
7	Samson Road	Oscar F. Tirona	October 1,2014	September 30,2019	53,106.90	5% annually
	Manila Region					
1	Binondo Corporate Center	Philippine-Chinese Charitable Association, Inc.	October 1,2012	September 30,2018	112,735.70	10% every other 2 yrs
2	Carmen Planas	Zaldra Realty Development Corporation	January 1,2015	December 31,2019	68,250.00	5% on 3rd year & every yr thereafter
3	Elcano	Nena Lumbao Hung	September 1, 2014	August 31, 2017	92,842.11	5% annually
4	Jose Abad Santos	Virgilio Ting Uy	December 16,2013	December 15,2018	66,150.00	5% on 3rd year & every yr thereafter
5	Quintin Paredes	Downtown Realty Investment Corporation	July 24,2015	July 24,2020	199,849.65	7.5% every other year
6	Adriatico-Malate	Evangeline T. Lim	February 4,2017	February 3,2022	135,442.13	5% on 3rd year & every year thereafter
7	Pasay	Mayson Realty Corporation	March 14,2013	March 14,2018	53,014.59	5% on 2nd yr & every year thereafter
8	Pasay-Malibay	M. Ainsley Realty Corporation	January 1,2014	December 31,2018	71,662.50	5% on 3rd year & every year thereafter
9	Paterno-Quiapo	Edilberto Pontillas	July 1,2013	June 30,2018	104,186.25	5% annually
10	Pedro Gil-Paco	Wesco General Merchandise	July 27,2012	July 27,2017	92,610.00	5% on 3rd year & every year thereafter

	REGION	LESSOR	COMMENCEMENT DATE	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Northern Metro Manila Region					
1	Karuhatan -Malinta	Cesar L. Flores & Marciana M. Flores	July 16, 2016	July 15, 2021	50,000.00	5% on 3rd year & every year thereafter
2	Malabon	J2NS Property Development, Inc.	August 1,2013	August 1,2018	85,236.88	8% on 3rd year & every year thereafter
3	Malabon-Rizal Avenue	Flaviano G. Felizardo III	August 18,2011	August 18,2026	40,000.00	none
4	Navotas	Megarite Development Corporation	January 1,2015	December 31,2019	41,351.52	5% annually
5	Valenzuela	PSL Prime Realty Corporation	August 1,2013	August 1,2018	105,701.37	5% annually
6	Baliuag	Danilo S. Santos	January 1,2007	December 31,2017	60,304.31	5% annually
7	Bocaue	Joel G. Castillo and Cynthia G. Castillo	January 1,2014	December 31,2018	44,100.00	5% on 3rd yr. & every yr thereafter
8	Malolos	DJ Paradise Resort Inc.	January 1,2015	December 31,2019	36,063.08	5% annually
9	Meycauayan	I.S. Properties, Inc.	January 1,2016	January 1,2021	66,150.00	5% on 3rd yr. & every yr thereafter
10	Sta. Maria	Angelika Halili Cruz	October 1,2012	September 30,2017	44,948.41	5% on 3rd yr. & every yr thereafter
11	Angeles	AJV Investment Holdings, Inc.	July 1,2013	June 30,2018	69,767.58	5% on 3rd yr. & every yr thereafter
12	Cabanatuan	Angel S. Pascual	January 16,2014	January 15,2019	58,750.00	5% on 3rd year & every yr thereafter
13	Gapan	Veronica, Albino, Digna, Gregorio, Elizabeth(all surnamed Del Fonso)	November 1,2008	November 1,2023	40,083.79	beg.2nd yr 5%up 5th 6.5%-6th-10th 8%-11th-15th
14	Olongapo City	Sps. Wilson W. Chieng and Betty Chieng	August 1, 2016	July 31, 2021	80,000.00	5% annually
15	San Fernando	JTG Sears Realty Corporation	April 1,2012	April 31,2017	24,000.00	-
16	Balanga	Melencio A. Unciano, Jr.	November 1,2014	October 31,2019	66,150.00	5% annually
17	SBMA-Subic	Subic Creative Center, Inc.	June 1, 2015	May 31, 2020	79,003.68	5% on 3rd yr. & every yr thereafter
	Eastern Metro Manila Region					
1	Greenhills	LGI Group Corporation	June 1,2012	May 31,2017	96,900.00	None-straight 5 years
2	Mandaluyong	Antonio H. Yap	January 1, 2017	'Decmeber 31, 2019	103,749.77	None-fixed for 3 years
3	Ortigas	CW Marketing and Development Corporation	June 15,2015	June 14,2020	68,355.00	5% on 2nd yr & every year thereafter
4	Pasig Blvd.-Kapitolyo	Dhondup Holdings Inc.	April 15,2012	April 15,2017	58,838.61	5% on 3rd year & every yr thereafter
5	Antipolo	Megathon Properties, Inc.	August 14,2013	August 14,2018	75,840.51	3% annually
6	Cainta	Molks Realty Development Corp.	September 15,2013	September 14,2018	65,100.00	5% on 3rd year & every yr thereafter
7	Marikina	Heirs of Amelia M. Diguanco	October 1,2016	September 30,2021	85,000.00	5% on 3rd year & every yr thereafter
8	Concepcion-Marikina	Mark William Pua Uy	August 15,2013	August 14,2018	63,000.00	5% every 2 years
9	Antipolo-Masinag	Rikland Property Leasing	December 20,2016	December 20,2021	59,511.19	5% annually
10	Taytay	Estelita M. Felix	November 1,2014	October 31,2019	69,835.50	5% on 3rd year & every yr thereafter
11	Ortigas Ave. Ext.-Cainta	Decoro General Construction and Trading Corporation	September 16, 2015	January 16, 2020	50,000.00	5% on 3rd year & every yr thereafter

	REGION	LESSOR	COMMENCEMENT DATE	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Central Metro Manila Region					
1	Commonwealth-Fairview	Frederick C. Ibay	December 1,2016	December 1,2021	69,457.50	5% annually
2	Cubao	RSAG Building Management Services	August 16,2015	August 15,2020	63,000.00	5% annually
3	Novaliches	Luwell Realty & Development Corporation	October 1,2014	September 30,2019	87,106.22	5% annually
4	Timog-Rotonda	A.A. Tanco, Inc.	December 1,2013	November 30,2018	88,200.00	5% on 3rd yr. & every yr thereafter
5	Banawe	Solmac Marketing Inc.	May 1, 2014	April 30, 2020	124,425.66	7.5% on 3rd yr. & every yr thereafter
6	Banawe-Kaliraya	Mary Ty Tan	June 15,2013	June 14,2018	88,200.00	5% on 3rd yr. & every yr thereafter
7	Congressional Avenue-Quezon City	Hedelita Cleofas Diaz, Herminio Cleofas, Jhoana Lyn Cleofas, Joisa Fatima Cleofas, Benancia Cleofas AKA Melicia Cleofas	April 1, 2015	December 31, 2017	81,033.75	5% annually
8	Del Monte	Cheung's Development Corporation	January 1, 2015	December 31, 2019	61,932.94	5% annually
9	Retiro	Doña Ignacia Development Corporation	May 22,2013	May 21,2018	57,245.00	7% on the 3rd year & every yr thereafter
10	Roosevelt	Henry Tan Villasi	November 15,2012	November 14,2017	32,900.98	5% on 3rd yr. & every yr thereafter
11	West Avenue	Fiorino Development Corporation	June 23,2012	June 23,2017	57,157.73	5% on 3rd yr. & every yr thereafter
12	Kamias-Anonas	Citi Property Management and Realty Corporation	August 16, 2015	August 15, 2020	79,200.00	5% on 3rd yr. & every yr thereafter
	Southern Metro Manila Region					
1	Legaspi Village-Makati	Andrea L.Dulalia	January 15,2013	January 14,2018	84,012.32	5% annually
2	Makati	AMY Leasing Company	January 1,2009	January 1,2024	147,745.54	5% on 2nd yr & every year thereafter
3	Salcedo Village-Makati	Lacelli International Corporation	August 1,2012	July 31,2017	138,567.71	5% on 3rd year & every yr thereafter
4	Sucat-Parañaque	Jaka Investments Corporation	February 15,2017	February 14,2022	95,447.53	5% annually
5	The Fort	Megaworld Corporation/Bonifacio West Dev't Corp.	May 1, 2015	April 30, 2017	222,915.00	10% p.a.
6	Dasmariñas-Cavite	Jica Land Developers Inc.	October 1,2013	September 30,2018	53,361.00	5% on 3rd yr and every yr thereafter
7	Las Piñas	Omni Investment Bldg	September 1,2014	February 26,2019	65,100.00	5% on 3rd year & every yr thereafter
8	Madrigal Business Park	Solid Gold Realty Corporation	August 26,2016	August 25,2021	70,195.48	5% annually
9	Muntinlupa	Sps. Sturnino L. Baccay & Katherine C. Baccay	October 1,2012	October 1,2017	63,465.63	5% on 3rd year & every yr thereafter
10	Molino-Bacoor	SolaGrande Realty Corporation	July 1,2014	June 30,2019	57,565.20	5% on 3rd yr and every yr thereafter
11	Trece Martires-Cavite	Virginia P. De Guzman	June 16,2015	July 15,2020	35,000.00	5% on 3rd yr and every yr thereafter
12	Carmona-Cavite	Jupan C. Lim	November 1, 2015	October 31, 2020	31,578.95	5% on 3rd yr and every yr thereafter
13	Binakayan	Philippine National Railways	January 1, 2017	December 31, 2017	12,132.96	yearly renewal
14	Better Living-Parañaque	Lauan Commercial Corporation	January 1, 2016	December 31, 2020	60,000.00	5% on 3rd yr and every yr thereafter
15	Bonifacio Global City	MC Home Depot (Fort Bonifacio), Inc.	February 1,2015	January 31,2020	100,495.08	5% annually

	REGION	LESSOR	COMMENCEMENT DATE	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Northern Luzon Region					
1	Cauayan	Jolilyn A. Guy	April 1,2013	March 31,2018	77,792.40	5% on 3rd yr. & every yr thereafter
2	Laoag City	Laoag Allied Realty and Development	October 1,2016	September 30,2021	85,000.00	5% on 3rd year & every yr thereafter
3	Tuguegarao	Lorita C. Corral	September 16,2013	September 15,2018	65,367.75	5% on 3rd yr. & every yr thereafter
4	Santiago	Sps. Manuel Salvador N. De Vera and Bonaleth M. De Vera	July 1,2014	June 30,2019	68,250.00	5% on 3rd yr. & every yr thereafter
5	Vigan	Juvencio L. Pe Benito	July 1,2014	June 30,2019	60,500.00	10% on 3rd yr. Only
6	Baguio	Atty. Ernesto Ll. De los Santos	August 26,2014	August 26,2019	82,480.79	5% on 2nd year & every 2 yrs thereafter
7	Dagupan	Wilson Dy	April 15,2002	April 14,2022	89,792.82	1st 3yrs at 50k 5% succeeding
8	La Union	Virginia Rondaris Mendoza	August 15,2014	August 15,2019	67,004.78	5% on 2nd yr & every year thereafter
9	Tarlac	Dentistaco Realty Corporation	July 1,2014	June 30,2019	73,705.27	5% annually
10	Urdaneta	Gold and Chimes Realty Corporation	February 1,2012	February 1,2022	73,857.19	5% every 2 years
11	Tarlac-Paniqui	Green Field Miracle Realty Development Corporation	January 16, 2015	January 15, 2020	38,962.00	5% on 3rd yr. & every yr thereafter
12	Benguet-La Trinidad	Sps. Fernando S. Tiong and Rosemarie G. Tiong	February 16, 2015	February 15, 2020	65,000.00	Additional P5,000.00 on the 3rd year only
13	Pangasinan-Lingayen	Carmen E. Dyliacco, Piedad E. Dyliacco & Montserrat S. Escano	November 1, 2015	October 31, 2020	53,000.00	5% on 3rd yr. & every yr thereafter
14	Candon-Ilocos Sur	Bienvenido Gabayan	November 1, 2015	October 31, 2020	60,000.00	fixed for 5 years
	Southern Luzon Region					
1	Batangas	Sps. Jose Q. and Helen S. Cifra	August 1, 2012	August 1,2017	79,860.00	10% on 3nd year & every year thereafter
2	Lipa City	Reynato D. Goce	August 15,2012	August 15,2017	76,530.59	5% annually
3	Tanauan	RNT Enterprises	August 16,2013	August 16,2018	75,600.00	5% on 3rd yr and every yr thereafter
4	Calapan	Mila S. Tolentino, Amado S. Tolentino Jr. and Lita S. Tolentino	May 23,2014	May 22,2019	42,000.00	5% on 3rd yr and every yr thereafter
5	Calamba	Nelson Lu & Josie T. Lu	January 1,2016	December 31,2020	76,576.90	5% annually
6	Lucena City	Amalia Garana-Italia	November 2,2012	November 2,2017	52,093.13	5% on 3rd yr and every yr thereafter
7	San Pablo	Albrighton Corporation	October 16,2013	October 15,2018	72,103.50	5% on 3rd yr and every yr thereafter
8	Sta. Rosa	Philippine Seven Corporation(Sub Lessor)	March 1, 2015	February 28, 2018	80,128.15	7.5% on the 2nd yr & every yr thereafter
9	San Pedro	Lily Tsang Ngo	April 1,2014	March 31, 2019	63,000.00	5% on 3rd yr and every yr thereafter
10	Legazpi City	Natividad M. Sison	August 15,2012	August 15,2017	57,881.25	5% on 3rd year & every yr thereafter
11	Naga	Peterson Resources and Holding Inc.	March 1,2015	February 29,2020	42,000.00	5% on 3rd year & every yr thereafter
12	Sorsogon	Sorsogon Chang Kai Shek School	October 1,2013	September 30,2018	66,701.25	5% on 3rd yr and every yr thereafter
13	Puerto Princesa Palawan	Sps. Allan and Dawn Carlos	July 1,2012	July 1,2018	86,300.94	5% on 3rd yr and every yr thereafter
14	Iriga-Camarines Sur	Arnel H. Tan	April 1,2015	March 31,2020	55,000.00	5% on 3rd yr and every yr thereafter
15	Biñan-Laguna	Abbie Lane M. Perez and Sunshine M. Perez	June 1,2015	May 30,2020	50,000.00	5% on 3rd yr and every yr thereafter

	REGION	LESSOR	COMMENCEMENT DATE	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Visayas Region					
1	Bacolod	The Philippine American Life and General Ins. Co.	November 1, 2014	October 31, 2019	70,512.26	5% annually
2	Iloilo	Manuel V. Uy	January 16,2015	January 15,2020	32,500.00	5% on 3rd year
3	Kalibo	Lawrence Ti Lu	September 6,2013	September 5,2018	72,600.00	10% on 3rd yr and every yr thereafter
4	Downtown-Cebu	Lianting Development Corporation	May 15, 2014	May 14, 2019	66,773.45	7.5% on the 3rd yr & every yr thereafter
5	Lapu-Lapu City	Antonio Amistad	February 15,2011	February 15,2016	65,116.00	For relocation; rental on a month to month basis
6	Mandaue	Lester & Lesley To Chip	April 1, 2014	March 31, 2019	67,004.78	5% annually
7	Tacloban	Tacloban Buddhist Temple, Inc.	May 31,2013	May 30,2018	66,150.00	5% on 3rd yr and every yr thereafter
8	Tagbilaran	EB Gallares Properties Associates, Inc.	September 16,2012	October 31,2017	77,225.17	5% on 3rd yr and every yr thereafter
9	Consolacion-Cebu	1028 Realty Corporation	December 1,2014	November 30,2019	61,335.75	5% on 3rd yr and every yr thereafter
10	Cebu-Talisay	Dynasty Management and Development Corporation	February 3, 2015	January 31, 2020	48,150.00	7% on the 3rd year & every yr thereafter
11	Cebu-Escario	Nicris Dev., Corp.	June 19, 2015	June 18, 2020	64,575.00	5% annually
12	Cebu-Banilad	SmartGlobal Holdings Inc.	July 1, 2015	June 30, 2020	75,515.00	5% on 3rd yr and every yr thereafter
13	Roxas City	Susan A. Jugo	November 16, 2015	November 15, 2020	55,500.00	5% on 3rd yr and every yr thereafter
14	Boracay	Sps. Larry & Annie Barbasa	March 1, 2016	February 28, 2021	98,000.00	fixed for 5 years
	Mindanao Region					
1	Bajada, Davao	Davao City Chamber of Commerce & Industry Inc.	December 1,2016	November 30,2017	42,325.06	yearly renewal
2	Davao-Sales	JM Agro Industrial Trading Corporation	June 2009	June 2019	69,457.50	5% every 2 years
3	General Santos	Firenzo Property Dev't/GSC Suncity Suites	September 17,2015	September 16,2020	72,600.00	5% on 3nd year and 5th year
4	Davao-Lanang	Binansel Inc.	June 1,2014	May 31,2019	55,000.00	Additional P5,000 on the 3rd yr and every year after
5	Davao-Toril	Far East Noble House, Inc.	July 21,2014	July 31,2019	38,850.00	5% on 3rd yr and every yr thereafter
6	Tagum City-Davao	Albert L. Ng	December 16,2014	December 15,2019	60,000.00	straight
7	General Santos-Santiago Blvd.	Asaje Realty Corporation	December 16,2014	December 15,2019	56,175.00	5% on 3nd yr, 10% on 4th and 5th year
8	Butuan	FG Ever, Inc.	December 26, 2013	December 25, 2018	69,631.57	5% on 3rd yr and every yr thereafter
9	Cagayan de Oro	Leo Boyd Casiño and Bernard M. Casiño	June 1, 2014	May 31, 2019	40,572.00	5% annually
10	Cagayan de Oro- Cogon	Alice LL. Andrada, Inc.	January 1,2014	December 31,2018	40,572.00	5% on 3rd yr and every yr thereafter
11	Iligan City	Sps. Glen and Marissa Doromal	April 1,2014	March 31, 2019	36,750.00	5% on 3rd yr and every yr thereafter
12	Zamboanga	Wee Agro Industrial, Inc.	September 6,2013	September 5,2018	66,150.00	5% on 3rd yr and every yr thereafter
13	Ozamis	The Insular Life Assurance Company, LTD	July 16,2014	July 15,2019	41,160.00	5% on 3rd yr and every yr thereafter
14	Dipolog	Johnny A. Lim	October 1,2014	September 30,2019	80,000.00	straight
15	Dumaguete	Maximo P. Tan, Jr.	December 16,2014	December 15,2019	63,000.00	5% annually
16	Davao-Panabo	Asaje Realty Corporation	January 16,2015	January 15,2020	62,909.00	5% on 3rd yr and every yr thereafter
17	Surigao City	Engr. Leonel A. Santos	August 1, 2015	July 31, 2020	46,000.00	10% on 3rd yr and every yr thereafter
18	Davao-C.M. Recto	JR Lacuesta Properties Development Corp.	September 1, 2015	August 31, 2020	59,325.00	5% on 3rd yr and every yr thereafter

Based on prevailing costs, the Bank estimates that the development of a new branch costs approximately between ₱5 million to ₱10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank intends to lease in the next twelve (12) months an additional twenty (20) branches for its branch network expansion program in the following areas:

Metro Manila

1 Taguig City (3rd branch)
2 Taguig City (4th branch)

Luzon

3 City of Alaminos, Pangasinan
4 San Jose City, Nueva Ecija
5 City of Santa Rosa, Laguna
6 Cabuyao City Laguna
7 Santo Tomas, Batangas
8 Solano, Nueva Vizcaya
9 Marilao, Bulacan
10 Apalit, Pampanga
11 Tabaco, Albay
12 Concepcion, Tarlac
13 San Mateo, Rizal

Visayas

14 Iloilo City
15 City of Catbalogan
16 Ormoc City

Mindanao

17 City of Kidapawan, North Cotabato
18 Pagadian, Zamboanga del Sur
19 City of Valencia, Bukidnon
20 City of Koronadal

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

The Bank has no proceedings that involves a claim for damages that exceed 10% of the current assets of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to vote a security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The common shares of PBB was listed last February 19, 2013. The high and low price of the Registrant's shares as of April 5, 2017 is ₱14.70.

Holders

As of the December 31, 2016, PBB's public listing date, the following are the holders of record of the Bank's common shares as set forth in the following table:

Name	Citizenship	Holidngs	Rank
Alfredo M. Yao	Filipino	199,865,258	37.26%
PCD Nominee Corporation - Filipino	Filipino	182,371,285	34.00%
Zest-O Corporation	Filipino	135,044,103	25.17%
PCD Nominee Corporation - Non Filipino	Foreign	7,652,270	1.43%
Armando M. Yao	Filipino	1,350,448	0.25%
Leticia M. Yao	Filipino	1,350,447	0.25%
Erlinda M. Yao	Filipino	1,350,447	0.25%
Jeffrey S. Yao	Filipino	1,350,447	0.25%
Carolyn S. Yao	Filipino	1,350,446	0.25%
Mary Grace S. Yao	Filipino	1,350,446	0.25%
Roberto L. Obiedo	Filipino	734,375	0.14%
James G. Dy	Filipino	390,625	0.07%
Siot Keng Go Dy	Filipino	312,500	0.06%
Peter Y. See	Filipino	312,500	0.06%
Johnny Chan	Filipino	156,250	0.03%
Antonio D. Tan &/or Caridad Tan	Filipino	156,250	0.03%
Jimmy Wai Piu Ng	Filipino	156,250	0.03%
Eusebio S. Go	Filipino	156,250	0.03%
Reynato Keh Lim &/or Susana Dy Lim	Filipino	156,250	0.03%
Xiaohan Wu	Chinese	148,281	0.03%
Others		743,295	0.14%
Total		536,458,423	100.00%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to P10.00.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

a) Its clearing account with BSP is not overdrawn;

b) BSP's liquidity floor requirement for government funds;

c) BSP's minimum capitalization requirement and risk-based capital ratio;

d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover

e) Statutory and liquidity reserves requirement;

f) It has no past due loans or accommodation with BSP or any institutions;

g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;

h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that banks whose shares are listed in the Philippine Stock Exchange may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to ₱2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of ₱100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of ₱10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to ₱62.3 million for all issued and outstanding preferred shares and stock dividends totaling ₱85.8 million common shares amounting to ₱858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On August 19, 2015, the BOD approved the declaration stock dividends totaling ₱107.3 million common shares amounting to ₱1.1 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On March 15, 2017, the BOD approved the declaration of 20% stock dividends amounting to ₱1.1 billion for the Bank's 536.5 million common shares subject to approval by BSP.

There has been no Stock Options offered by the Bank.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

PBB is a savings bank whose principal banking activities are focused on the corporate and SME markets. Among the Bank's principal products are corporate and consumer loans, deposit products, treasury and trust products and trade financing, among others. The Bank was formed in 1997 and today, has a network of 139 branches and 142 ATMs located all over the country.

The Bank's capital as of year-end 2016 stood at ₱9.6 billion. Book value per share was ₱16.7.

As of December 31, 2016, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio was 16.2% and 17.0%, respectively. Return on average assets and return on average equity were 1.0% and 7.5%, respectively.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

Philippine and Global economic environment

The Bank's business and operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

A. Financial Performance

For the calendar year ended December 31, 2016 and 2015:

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Interest income	₱ 3,207,154,576	₱ 3,140,643,449	₱ 66,511,127	2.1
Interest expense	(734,732,780)	(758,318,335)	23,585,555	(3.1)
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8

Interest income grew by 2.1% from ₱3.1 billion in 2015 to ₱3.2 billion in 2016 as interest income from loans and other receivables and interest due from BSP and other banks increased by 4.0% and 53.1%, respectively. On the other hand, interest expense declined by 3.1% from ₱758.3 million to ₱734.7 million YoY as bills payable and other interest expenses declined by 99.6% and 64.4%.

As a result, net interest income grew by 3.8% or ₱90.1 million from ₱2.4 billion in 2015 to ₱2.5 billion in 2016.

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Core income				
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8
Service charges, fees and commissions	151,446,102	132,425,882	19,020,220	14.4
Miscellaneous	84,734,375	73,430,963	11,303,412	15.4
	2,708,602,273	2,588,181,959	120,420,314	4.7
Non-interest expenses	(2,012,479,487)	(1,780,166,990)	(232,312,497)	13.1
Core income	₱ 696,122,786	₱ 808,014,969	(₱ 111,892,183)	(13.8)

Service charges, fees and commissions increased by 14.4% from ₱132.4 million to ₱151.4 million YoY due to 76.6% and 16.0% growth in service charges for domestic bills and appraisal fees, respectively. Miscellaneous income expanded by 15.4%, or ₱11.3 million, as commitment, processing and handling fees in relation to services rendered by the Bank grew by 23.1%.

There was a ₱232.3 million increase in operating expense from ₱1.8 billion in 2015 to ₱2.0 billion in 2016. Significant increases of non-interest expenses above 10% are as follows: salaries and other employee benefits by 16.9%, depreciation and amortization by 11.3%, management and other professional fees by 34.2%, and miscellaneous expenses by 11.1%.

		For the calendar period ended					
		12/31/2016		12/31/2015		Variance	%
Core income	₱	696,122,786	₱	808,014,969	(₱	111,892,183)	(13.8)
Trading gains (losses)		335,383,026		69,474,667		265,908,359	382.7
Pre-tax pre-provision profit	₱	1,031,505,812	₱	877,489,636	₱	154,016,176	17.6
Loan loss provision	(	157,043,157)	(	172,050,358)		15,007,201	(8.7)
Taxes	(	205,838,450)	(	203,297,274)	(	2,541,176)	1.2
Net income	**₱**	**668,624,205**	**₱**	**502,142,004**	**₱**	**166,482,201**	**33.2**

Trading gains accelerated by 382.7% from ₱69.5 million last year to ₱335.4 million this year bringing pre-tax pre-provision profit to ₱1.0 billion in 2016, a 17.6% increase from ₱877.5 million in 2015. The Bank continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. Loan loss provision decreased from ₱172.1 million in 2015 to ₱157.0 million in 2016 as the NPL ratio declined from 2.9% to 2.5% in 2016.

Consequently, the Bank's net income grew from ₱502.1 million to ₱668.6 million, a 33.2% increase YoY.

<u>For the calendar year ended December 31, 2015 and 2014:</u>

		For the calendar period ended					
		12/31/2015		12/31/2014		Variance	%
Interest income	₱	3,140,643,449	₱	2,835,896,095	₱	304,747,354	10.7
Interest expense	(	758,318,335)	(	600,616,735)	(	157,701,600)	26.3
Net interest income	₱	2,382,325,114	₱	2,235,279,360	₱	147,045,754	6.6

Interest income grew by 10.7% from ₱2.8 billion to ₱3.1 billion this year due to higher loan volumes booked this year. Interest expense also increased by 26.3% as the volume of deposits increased from ₱46.6 billion in 2014 to ₱55.1 billion in 2015.

The Bank's net interest income increased from ₱2.2 billion in 2014 to ₱2.4 billion in 2015. The growth was a direct result of the increase in interest income from ₱2.8 billion in 2014 to ₱3.1 billion in 2015, 10.7% growth year-over-year (YoY) while interest expense grew by ₱157.7 million from ₱600.6 million in 2014 to ₱758.3 million in 2015.

As a result, PBB's net interest income totaled ₱2.4 billion for the year 2015.

		For the calendar period ended		
	12/31/2015	12/31/2014	Variance	%
Core income				
Net interest income	₱ 2,382,325,114	₱ 2,235,279,360	₱ 147,045,754	6.6
Service charges, fees and commissions	132,425,882	127,487,177	4,938,705	3.9
Miscellaneous	73,430,963	144,153,797	(70,722,834)	(49.1)
	2,588,181,959	2,506,920,334	81,261,625	3.2
Non-interest expenses	(1,780,166,990)	(1,573,216,261)	(206,950,729)	13.2
Core income	**808,014,969**	**933,704,073**	**(125,689,104)**	**(13.5)**

Despite the increase in net interest income, its core income decreased by 13.5% from ₱933.7 million to ₱808.0 million. However, on a recurring basis core income would increase by 2.5% owing to a one time gain in miscellaneous income in 2014.

Service charges, fees and commissions expanded to ₱132.4 million, or a 3.9% growth YoY, while Miscellaneous income decreased by ₱70.7 million resulting in ₱73.4 million.

Non-interest expenses grew by 13.2% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

		For the calendar period ended		
	12/31/2015	12/31/2014	Variance	%
Core income	₱ 808,014,969	₱ 933,704,073	(₱ 125,689,104)	(13.5)
Trading gains (losses)	69,474,667	34,827,391	34,647,276	99.5
Pre-tax pre-provision profit	₱ 877,489,636	₱ 968,531,464	(₱ 91,041,828)	(9.4)
Loan loss provision	(172,050,358)	(189,887,127)	17,836,769	(9.4)
Taxes	(203,297,274)	(242,439,233)	39,141,959	(16.1)
Net income	**₱ 502,142,004**	**₱ 536,205,104**	**(₱ 34,063,100)**	**(6.4)**

The Bank's trading gains totaled ₱69.5 million, higher than last year's gain of ₱34.8 million, a 99.5% increase. As a result pre-tax pre-provision income rose to ₱887.9 million. PBB continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. The Bank decreased its provision by ₱17.8 million from ₱189.9 million in 2014 to ₱172.1 million in 2015.

Net income amounted to ₱502.1 million, which is 6.4% lower YoY from ₱536.2 million.

For the calendar year ended December 31, 2014 and 2013:

		For the calendar period ended		
	12/31/2014	12/31/2013	Variance	%
Interest income	₱ 2,835,896,095	₱ 2,231,764,242	₱ 604,131,853	27.1
Interest expense	(600,616,735)	(499,607,169)	101,009,566	20.2
Net interest income	₱ 2,235,279,360	₱ 1,732,157,073	₱ 503,122,287	29.0

Interest income grew by 27.1% from ₱2.2 billion to ₱2.8 billion this year due to the increase in loan volume booked during the period which increased by 26.9% YoY. Interest expense also increased by 20.2% as the volume of deposits increased from ₱37.9 billion in 2013 to ₱46.6 billion in 2014, a 23.1% increase.

Consequently, net interest income for the year also improved by 29.0% from ₱1.7 billion the previous year to ₱2.2 billion.

		For the calendar periods ended:					
		12/31/2014		12/31/2013		Variance	%
Core income							
Net interest income	₱	2,235,279,360	₱	1,732,157,073	₱	503,122,287	29.0
Service charges, fees and commissions		127,487,177		73,829,527		53,657,650	72.7
Miscellaneous		144,153,797		38,228,379		105,925,418	277.1
		2,506,920,334		1,844,214,979		662,705,355	35.9
Non-interest expenses	(	1,573,216,261)	(	1,355,020,586)		218,195,675	16.1
Core income	**₱**	**933,704,073**	**₱**	**489,194,393**	**₱**	**444,509,680**	**90.9**

The Bank's core business continued to perform well on the back of a robust lending business as core income for the year totaled to ₱933.7 million, a 90.9% growth from last year's core income of ₱489.2 million.

Net interest income for the period is at ₱2.2 billion, or an increase of 29.0% as interest income on loans and receivables grew by ₱551.4 million, a 30.4 % growth year-over-year (YoY), while interest expense on deposit liabilities increased by ₱107.6 million, a 21.9% growth YoY. Non-interest expenses increased by ₱216.4 million or 16.0%.

Service charges, fees and commissions increased to ₱127.5 million, or a 72.7% growth YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.

Meanwhile, non-interest expenses grew by 16.1% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

As a result, core income net of operating expenses increased by 90.9% amounting to ₱933.7 million YoY.

		For the calendar period ended					
		12/31/2014		12/31/2013		Variance	%
Core income	₱	933,704,073	₱	489,194,393	₱	444,509,680	90.9
Trading gains (losses)		34,827,391		816,773,032	(	781,945,641)	(95.7)
Pre-tax pre-provision profit	₱	968,531,464	₱	1,305,967,425	(₱	337,435,961)	(25.8)
Loan loss provision	(	189,887,127)	(	178,193,789)	(	11,693,338)	6.6
Taxes	(	242,439,233)	(	123,727,024)	(	118,712,209)	95.9
Net income	**₱**	**536,205,104**	**₱**	**1,004,046,612**	**(₱**	**467,841,508)**	**(46.6)**

On the other hand, the Bank's trading gains amounted to ₱34.8 million which is lower than last year's gain of ₱816.8 million, a 95.7% decrease. Thus, pre-tax pre-provision income dropped by 25.7% YoY from ₱1.305 billion last year to ₱970.3 million in 2014. The Bank increased its provisioning by 6.6% from ₱178.2 million to ₱189.9 million

Net income amounted to ₱536.2 million, which is 46.6% lower YoY from ₱1.004 billion in 2013, because of the decrease in the income from trading activities. However, it is worthy to note that as the core income for the period increased, total comprehensive income also increased by 180.6%, from last year's loss of ₱370 million to this year's profit of ₱1.040 billion.

Financial position

December 31, 2016 vs December 31, 2015

As of December 31, 2016, the Bank's total resources stood at ₱70.3 billion from ₱65.6 billion last year, a 7.1% increase as loans and other receivables expanded by 23.2% from ₱41.7 billion to ₱51.4 billion YoY.

Cash and other cash items declined by 14.1% from ₱1.3 billion to ₱1.1 billion YoY as the Bank paid out its bills payable in 2016.

Mandatory reserves were up by 12.2% while other than mandatory reserves declined by 49.4% making the total for due from Bangko Sentral ng Pilipinas as of full year 2016 down to ₱6.2 billion. Due from other banks also decreased by 42.2% as deposits from local and foreign banks decreased by 51.3% and 18.7%, respectively.

Trading and other investment securities decreased by 22.3% as the Bank unloaded its HTM securities amounting to ₱5.9 billion as of end 2016.

As of year-end 2016, the Bank's premises, furniture, fixtures, and equipment was reduced to ₱536.0 million from ₱562.6 million, a 4.7% decrease. This is due to the increase in disposals of furniture and fixtures, transportation equipment, and leasehold improvement from ₱6.2 million to ₱33.7 million YoY.

Investment properties also dropped by 33.6% to ₱448.4 million subsequent to the ₱390.4 million land disposal in 2016.

Other resources increased by 5.4%, or ₱91.8 million higher than last year's ₱1.7 billion as goodwill expanded by 119.3% following BSP's approval of the acquisition of Rural Bank of Kawit as the Bank recognized assets and liabilities at their fair values amounting to ₱59.5 million.

Due to the Bank's aggressive branch expansion project, deposit liabilities grew by 7.1% or ₱3.9 billion from ₱55.0 billion to ₱58.9 billion YoY. Both low cost funds and time deposits increased by 11.8% and 4.0%, respectively.

Accrued expenses and other liabilities decreased by 14.7% from ₱2.1 billion in December 31, 2015 to ₱1.8 billion as of December 31, 2016. This is primarily due to the 37.1% decline in bills purchased and paid out 100% of post-employee benefit obligation amounting to ₱23.4 million and ₱1.9 million derivative liabilities.

Shareholder's equity strengthened by 13.0% to ₱9.6 billion versus last year's ₱8.5 billion. Book value per share as of December 31, 2016 was at ₱16.7 versus last year's ₱14.6.

December 31, 2015 vs December 31, 2014

The Bank's assets reached ₱65.6 billion, a 13.4% increase compared to ₱57.9 billion last year. A major source came from loans and receivables which grew by ₱1.6 billion or 4.1% from ₱40.1 billion in December 31, 2014 to ₱41.7 billion in December 31, 2015 as a result of deployment of funds to borrowing clients.

Cash and Other Cash items improved by ₱105.3 million or 9.0% from ₱1.2 billion in December 31, 2014 to ₱1.3 billion in December 2015 due to significant increase in the number of branches.

Due from BSP grew by ₱3.1 billion or 68.46% from ₱4.6 billion in December 31, 2014 to ₱7.7 billion in December 31, 2015.

Due from other banks increased by ₱794.4 million or 39.1% from ₱2.0 billion in December 31, 2014 to ₱2.8 billion in December 31, 2015 this is an increase in excess cash in vault of branches deposited to our depository bank for transfer to BSP.

Bank Premises grew by ₱46.9 million or 9.1% from ₱515.8 million in December 31, 2014 to ₱562.6 million in December 31, 2015 due to branch expansion.

Investment Properties declined by 4.2% or ₱30.0 million from ₱705.7 million in December 31, 2014 to ₱675.8 million in December 31, 2015.

Other resources increased by 87.34% or ₱796.7 million from ₱912.1 million in December 31, 2015 to ₱1.7 billion in December 31, 2014.

Liabilities amounted to ₱57.1 billion as of December 31, 2015. This is ₱87.3 million or 14.6% higher compared to December 31, 2014 level of ₱49.8 billion. This is due to increase in the number of branches and aggressive deposit campaign.

Bills Payable decreased by ₱308.6 million or 99.7% from ₱309.5 million in December 2014 to ₱956.3 thousand in December 2015. Accrued expenses and other liabilities decreased by 27.82% or ₱807.9 million from ₱2.9 billion in December 31, 2015 to ₱2.1 billion in December 31, 2014.

December 31, 2014 vs. December 31, 2013:

As of December 31, 2014, the Bank's assets reached ₱57.8 billion, a 22.7% increase compared to ₱47.2 billion last year.

Loans and receivables increased by 26.9% from ₱31.6 billion to ₱40.1 billion this year as funds were deployed to borrowing clients. NPL ratio improved significantly from 2.37% last year to this year's ratio of 1.57%.

Deposit liabilities grew by 23.1% due to an aggressive deposit campaign while total equity increased by 14.2% from ₱ 7.0 billion to ₱8.0 billion in December 2014.

B. Key Performance Indicators

CAR: Capital Adequacy Ratio is at 17.0%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: The Bank's non-performing loans ratio improved, from 2.9% in 2015 to 2.5% this year.

Profitability: Return on Average Equity (ROAE) increased from 6.1% in 2015 to 7.5% this year.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2016 increased from 75.0% last year to 87.3% this year.

Asset efficiency: The Return on Average Assets (ROAA) increased, from 0.8% in December 2015 to 1.0% in December 2016.

Book value per share as of December 31, 2016 was at ₱16.7 from ₱14.6 in December 31, 2015.

The following table shows the key performance indicators for the past three (3) calendar years ending December 31, 2016 (in %):

Performance Indicator	2014	2015	2016
ROAE	6.9	6.1	7.5
ROAA	1.0	0.8	1.0
CAR	20.8	17.7	17.0
Loans – Deposit Ratio (BSP Formula)	86.0	75.9	87.3
NPL Ratio (BSP Formula)	1.6	2.9	2.5
Book value per share[1]	8.0	14.6	16.7

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to notes 2 and 3 of the Bank's financial statements included as attachment of SEC17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income. Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense. Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

1. *Adjusted for stock dividends of 25% in 2014 and 2015*

Net Interest Income. Net interest income is equal to interest income after deducting interest expense.

Impairment Losses. Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Other income is composed of the following:

Trading gains – net. This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions. The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income. Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

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

Vertical and Horizontal Analysis

Financial Condition as of December 2016 vs December 2015:

As mentioned, the Bank's total resources increased to ₱70.3 billion as of year-end 2016, a 7.1% increase from ₱65.6 billion in 2015. Significant changes (more than 5%) in assets were registered in the following accounts.

- Loans and other receivables expanded by 23.2% from ₱41.7 billion in 2015 to ₱51.4 billion in 2016 due to the reorganization of the Bank's lending unit to streamline its account management process.

- Other resources grew by 5.4% from ₱1.7 billion to ₱1.8 billion YoY.

On the other hand, deposit liabilities grew to ₱58.9 billion compared to last year's ₱55.0 billion, a 7.1% increase.

- CASA increased by 11.8% from ₱21.7 billion in 2015 to ₱24.2 billion in 2016.

- Time deposits as of end December 31, 2016 to ₱34.7 billion, a 4.0% growth versus last year's ₱33.4 billion.

- The Bank paid out all of its bills payable amounting to ₱956.3 thousand as of December 31, 2016.

- Accrued expenses and other liabilities dropped by 14.7% YoY from ₱2.1 billion to ₱1.8 billion.

As of year-end 2016, the Bank's capital stood at ₱9.6 billion versus ₱8.5 billion in 2015. Book value per share was at ₱16.7 from ₱14.6 last year.

Financial Condition as of December 2015 vs December 2014:

As mentioned, PBB's assets grew to ₱65.3 billion as of December 31, 2015. This is 13.4% higher as compared to ₱57.9 billion as of December 31, 2014. Significant changes (more than 5%) in assets were registered in the following accounts.

- Cash and Other Cash items improved by ₱105.3 million or 9.0% from ₱1.2 billion in December 31, 2014 to ₱1.3 billion in December 2015 due to significant increase in the number of branches.

- Due from BSP grew by ₱3.1 billion or 68.5% from ₱4.6 billion in December 31, 2014 to ₱7.7 billion in December 31, 2015 due to increased deposits to BSP as a result of very liquid position during the year 2015.

- Due from other banks increased by ₱794.4 million or 39.1% from ₱2.0 billion in December 31, 2014 to ₱2.8 billion in December 31, 2015 this is an increase in excess cash in vault of branches deposited to our depository bank for transfer to BSP.

- Loans and Receivables grew by ₱1.6 billion or 4.1% from ₱40.1 billion in December 31, 2014 to ₱41.7 billion in December 31, 2015 as a result of deployment of funds to borrowing clients.

- Bank Premises grew by ₱46.9 million or 9.1% from ₱515.8 million in December 31, 2014 to ₱562.6 million in December 31, 2015 due to branch expansion.

- Investment Properties declined by 4.2% or ₱30.0 million from ₱705.7 million in December 31, 2014 to ₱675.8 m in December 31, 2015

- Other resources increased by 87.3% or ₱796.7 million from ₱912.1 million in December 31, 2015 to ₱1.7 billion in December 31, 2014.

On the other hand, PBB's liabilities amounted to ₱57.1 billion as of December 31, 2015. This is ₱87.3 million or 14.6% higher compared to December 31, 2014 level of ₱49.8 billion. This is due to increase in the number of branches and aggressive deposit campaign.

- Bills Payable decreased by ₱308.6 million or 99.7% from ₱309.5 million in December 2014 to ₱956,250 in December 2015.

- Accrued expenses and other liabilities decreased by 27.8% or ₱807.9 million from P2.9 billion in December 31, 2015 to ₱2.1 billion in December 31, 2014.

Shareholder's equity stood at ₱8.5 billion compared to ₱8.0 billion in 2014, a 5.6% increase.

<u>Financial Condition as of December 2014 vs December 2013:</u>

As mentioned, the Bank's assets reached ₱57.6 billion as of December 31, 2014 or an increase of 22.7% compared to ₱47.2 billion in 2013. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash items increased by 59.6% from ₱735.7 million in December 31, 2013 to ₱1.2 billion this year as the Bank continued with the expansion of its branch network.

- Due from BSP grew by 26.6% from ₱3.6 billion last year to ₱4.6 billion in December 31, 2014 due to the increase in deposits to BSP as a consequence of a very liquid standing during the year.

- Loans and receivables increased by 26.9% from ₱31.6 billion to ₱40.1 billion this year due to the aggressive generation of deposits.

- Due from other banks increased by 202.6% from ₱671.5 million to ₱2.0 billion, as a result of the increase in excess cash in the vaults of the branches deposited to our depository bank for transfer to BSP.

- Bank Premises grew by ₱38.9 million, a 8.2% from ₱476.8 million in 2013 to ₱515.8 million as of December 31, 2014 as a result of the continued branch expansion.
- Investment Properties increased by 58.4% from ₱445.6 million last year to ₱705.7 million this year as past due accounts were foreclosed during the year.

- Other resources increased by 12.6% ₱796.5 million in December 31, 2013 to ₱912.1 million as of December 31, 2014.

On the other hand, the Bank's liabilities amounted to ₱46.6 billion as of December 31, 2014. This is ₱737.4 million or 23.1% higher compared to 2013's liabilities amounting to ₱37.9 billion. This is still due to the increase in the number of branches and an aggressive deposit campaign.

- Bills Payable increased by 59.6% from ₱193.9 million in December 2013 to ₱309.5 million this year.

- Accrued expenses and other liabilities also increased by 60.1% from ₱2.0 billion to ₱2.9 billion in 2014.

Results of Operations

<u>For the year ended December 31, 2016 vs. December 31, 2015</u>

- As of year-end 2016, the Bank's interest income grew by 2.1% from ₱3.1 billion to ₱3.2 billion YoY due to the 53.1% increase in interest income from BSP and other banks and the 4.0% growth of interest income from loans and other receivables.

- Overall interest expense declined by 3.1% from ₱758.3 million in 2015 to ₱734.7 million in 2016 largely due to the 99.6% decrease in interest expense on bills payable in 2016 from ₱3.3 billion to ₱12.8 thousand.

- Service charges, fees, and commissions grew by ₱19.0 million or 14.4% YoY and miscellaneous income by 15.4% from ₱73.4 million in 2015 to ₱84.7 million in 2016.

- Trading gains expanded by 382.7%, bringing the total for full year 2016 ₱335.4 million compared to last year's ₱69.5 million.

- Non-interest expenses increased by 13.1%, or ₱232.3 million, from ₱1.8 billion in 2015 to ₱2.0 billion in 2016 as a result of the Bank's initiative to expand its branch network.

- Pre-tax pre-provision profit expanded by 17.6% or ₱154.0 million from ₱877.5 million in 2015 to ₱1.0 billion in 2016 largely due to the ₱265.9 million increase in trading gains.

- As a result, net income as of December 31, 2016 strengthened by 33.2% from ₱502.1 million as of year-end 2015 to ₱668.6 million, a ₱166.5 million increase.

For the year ended December 31, 2015 vs. December 31, 2014

- PBB's interest income increased from ₱2.8 billion in 2014 to ₱3.1 billion in 2015 largely due to the increase in loan volume to ₱41.7 billion in 2015 from ₱40.1 billion in 2014. Another factor is the increase of securities purchased under reverse repurchase agreements from ₱545.8 thousand in 2014 to ₱1.9 million in 2015. Interest due from BSP increased from ₱37.2 million in 2014 to ₱69.7 million due to the increase in volume of Deposit from BSP to cover deposit liability reserves.

- Overall interest expense expanded from ₱600.6 million in 2014 to ₱758.3 million in 2015, up 26.3% or ₱ 157.7 million generally because of the significant boost in the general deposit of 18.01%.Volume of deposit expanded from ₱46.6 billion in 2014 to ₱55.0 billion in 2015.

- Service charges, fees and commissions increased by 3.9% YoY, while Miscellaneous income declined by ₱70.7 million or 49.1%.

- Trading gains increased by ₱34.6 million resulting in ₱69.5 million for this year.

- Service charges, fees and commissions expanded to ₱132.4 million, or a 3.9% growth YoY, while Miscellaneous income decreased by ₱70.7 million resulting in ₱73.4 million. This decrease in miscellaneous income caused the 13.5% decrease in the core income.

- Non-interest expenses grew by 13.2% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

- Net income amounted to ₱502.1 million, which is 6.4% lower YoY from last year's ₱536.2 million.

For the year ended December 31, 2014 vs. December 31, 2013

- This year, the Bank's core income, which is composed of the Bank's net interest income, service charges, fees and commissions, and miscellaneous income amounted to ₱935.5 million. This is an increase of ₱503.1 million from last year's core income. Net income amounted to ₱536.2 million, which is 46.6% lower from ₱1.0 billion in 2013 due to the decrease in the income from trading activities, total comprehensive income improved by 180.6% from a loss last year to a total gain of ₱1.0 billion.

- Interest income grew by 27.1% from ₱2.2 billion in December 2013 to ₱2.8 billion in 2014 due to the increase in loan volume booked during the period which increased by 26.9% YoY.

- Service charges, fees and commissions by 72.7% YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.

- Trading gains amounted to ₱34.8 million, lower than last year's gain of ₱816.8 million, a 95.7% decrease.

- Manpower costs increased by 22.1% from ₱392.7 million in 2013 to ₱479.6 million in 2014 as a result of continued business expansion.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2014 (audited)	2015 (audited)	2016 (audited)
Cash and cash equivalents, beginning of the year	5,004.36	7,760.03	11,777.92
Net cash provided by (used in) operating activities	1,630.53	5,878.80	(9,737.40)
Net cash provided by (used in) investing activities	1,071.87	(1,552.36)	7,258.77
Net cash provided by (used in) financing activities	53.27	(308.57)	(956.25)
Net increase (decrease) in cash and cash equivalents	2,755.67	4,017.89	(2,479.59)
Cash and cash equivalents, end of the year	7,760.03	11,777.92	9,362.20

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated and loans and receivables. As of December 31, 2016, net cash used in operating activities amounted to a negative ₱9.7 billion. During this time, the Bank expanded its loans and receivables by ₱9.7 billion while its deposits grew by ₱3.9 billion. Impairment losses for the year decreased by 8.7% to ₱157.0 million. As of the years ended December 31, 2015 and 2014, cash flow from operating activities was ₱5.9 billion and ₱1.6 billion respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the purchase and sale of available for sale securities and held-to-maturity investments and capital expenditure and proceeds from the disposal of investment and other properties. As of December 31, 2016 net cash used in investing activities amounted to ₱7.3 billion, with funds generated mainly from the proceeds from sale of investments and other property amounting to ₱9.0 billion less net acquisition of bank premises and FFE and net acquisitions of available for sale securities. Net cash used in investing activities for 2014 and 2015 were ₱1.1 and negative ₱1.6 billion.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is mainly composed of availments of the Bank's credit lines and stockholders' equity infusion. As of December 31, 2016, PBB recorded a use of cash flow from financing activities of ₱308.6 million to payoff remaining bills payable. Last year, the Bank also noted ₱308.6 million for the payment of its bills payable. As of December 31, 2014 PBB recorded net cash provided by financing activities of ₱53.3 million arising from net borrowings of ₱115.6 million net of cash dividend payment of ₱62.3 million.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

₱ millions	**As of the years ended December 31**		
	2014	**2015**	**2016**
Tier 1 capital	8,275	8,709	9,241
Tier 2 capital	383	376	470
Gross qualifying capital	8,656	9,085	9,711
Less: required deductions	-	-	-
Total qualifying capital	8,656	9,085	9,711
Risk weighted assets	41,667	51,340	57,154
Tier 1 capital ratio	19.9	17.0	16.2
Total capital ratio	20.8	17.7	17.0

Known trends, demands, commitments, events or uncertainties

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

Events that will trigger direct or contingent financial obligation

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

Material off-balance sheet transactions, arrangements or obligations

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

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2016 and 2015 came from its continuing operations.

Seasonal Aspects

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

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2016:

In ₱ millions	**2014**	**2015**	**2016**
Investment management accounts	3,428,334,610	4,059,027,956	1,938,042,428
Outstanding letters of credit	512,119,342	1,193,799,732	807,107,561
Trust and other fiduciary accounts	281,508,984	506,103,798	796,018,046
Unit investment trust fund	103,019,963	31,812,677	34,259,888
Late deposits / payments received	13,121,910	9,736,574	7,615,931
Outward bills for collection	43,102,544	8,423,324	53,479,103
Items help for safekeeping	42,585	68,979	66,919
Items help as collateral	7,925	9,416	8,720
Other contingent accounts	123,879,021	529,127,518	543,038,687
Total	**4,505,136,884**	**6,338,109,974**	**4,179,637,283**

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA). An agency arrangement that involves the prudent investment of funds on behalf of the clients;

2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements;

3. Unit Investment Trust Fund (UITF). A pooled fund created to offer investment opportunities to small investors.

The Bank has ₱4.2 billion in contingent liabilities of which, ₱2.8 billion or 66.2% are in trust arrangements which include investment management accounts, trust and other fiduciary accounts, and unit investment trust fund.

Selected information disclosed in the Audited Financial Statements

Classifying Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to ₱18.8 million and ₱2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification, as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of ₱2,621.7 million. As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. Starting 2012, the tainting of the Bank had been lifted.

Management of Liquidity Risks through MCO Limits

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

DOSRI Loans under Related Party Transactions

Total outstanding DOSRI loans as of December 31, 2016 and 2015 pertain to loan transactions with its officers and employees and related parties amounting to ₱1.2 billion and ₱1.3 billion.

Earnings per Share

The Bank's earnings per share (EPS) as of December 31, 2016, 2015 and 2014 is ₱1.10, ₱0.94, and ₱0.88, respectively. This is computed by dividing the net income of ₱668.6 million, ₱502.1 million, and ₱536.2 million, by the average number of outstanding shares as of December 31, 2016, 2015 and 2014 respectively.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC17-A as "ANNEX A".

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Limited, has been the bank's independent accountant for the last eight (8) years and is again recommended for appointment at the scheduled stockholders meeting.

None of the Bank's external auditors have resigned during the most recent fiscal years (2015 and 2016) or any interim period. In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five (5) years of engagement, Mr. Leonardo D. Cuaresma, Jr. was assigned in 2014 as an independent reviewer and partner in charge for the bank replacing Mr. Benjamin P. Valdez. Representatives of P&A are expected to be present at the meeting to respond to matters relating to the Auditor's report on the 2016 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank's financial statement:

Audit Fees For	In ₱
Dec 31, 2011	721,412.31
Jun 30, 2012	752,640.00
Sep 30, 2012	978,432.00
Dec 31, 2012	824,320.00
Dec 31, 2013	2,609,152.00
Dec 31, 2014	2,475,405.61
Dec 31, 2015	2,324,278.38
Dec 31, 2016	2,599,735.16

No other services were rendered by P&A that were not related to the audit and review of the Bank's financial statements.

There were no disagreements with P&A on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Directors and Executive Officers:

a. The following are the names of the incumbent Directors of the Bank:

Incumbent	Age	Nationality	Position with the Bank	Date of election
Amb. Alfredo M. Yao	72	Filipino	Chairman Emeritus	Jul 26, 2010
Francis T. Lee	68	Filipino	Chairman	Apr 30, 2010
Jeffrey S. Yao	49	Filipino	Vice Chairman	April 1, 2016
Rolando R. Avante	58	Filipino	President & Chief Executive Officer	Nov 2, 2011
Amador T. Vallejos, Jr.	70	Filipino	Director	Apr 27, 2012
Honorio O. Reyes- Lao	73	Filipino	Director	Apr 29, 2011
Danilo A. Alcoseba	65	Filipino	Director	May 27, 2016
Roberto A. Atendido	70	Filipino	Director	May 26, 2006
Leticia M. Yao	64	Filipino	Director	Apr 29, 2011
Paterno H. Dizon	79	Filipino	Independent Director	Apr 2006
Benjamin R. Sta. Catalina, Jr.	69	Filipino	Independent Director	Jul 16, 2012

BUSINESS EXPERIENCE

The following is a brief description of the business experience of each of the Directors of the Bank:

Alfredo M. Yao (Filipino, 72 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of the Board of PBB. He is also currently the Chairman of Zest-O Corporation, Semexco Marketing Corp., and Asiawide Refreshments Corp. He is currently serving as President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. He is also a former director of Export and Industry Bank. He has had training in Corporate Governance, AML and Risk Management, one conducted by the Pacific Management Forum and PBB. He has had training on CISA – for the Credit Bureau, and on SME Related Issues and other CTB Related seminars. He also had attended several PCCI Business Forum, given by PCCI and the International Trade Organization under the umbrella of the PCCI and the DTI.

Francis T. Lee (Filipino, 68 years old)

Chairman Francis T. Lee, was appointed Chairman of the Board on 26 July 2010 and last re-elected as Director on 27 May 2016. He was appointed Chief Operating Officer (COO) on 01 September 2011 before he held the Chairman position.

Active in the community, he served as President of the AMY Foundation – the CSR of the Yao Group of Companies, from 08 December 2003 up to 08 December 2013.

A career banker for more than 30 years, Mr. Lee started his banking career with Pacific Bank where he gained much experience and knowledge. His career progressed as he held a number of executive positions from Senior Manager rising to Senior Vice President at the Metrobank Group from 1988 to 2000 before he joined PBB.

His expertise and trainings include Philippine Institute of Banking in 1969; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Team Building Workshop in 2004 at PBB; Risk Awareness Seminar in 2009 at the Pacific Management Forum; and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2012 and in 2014; Corporate Governance Seminar for Board of Directors on December 10, 2015. Mr. Lee studied Bachelor of Arts in Business Administration in Manuel L. Quezon University.

Committee(s): Asset & Liability, Bid, Credit, Executive, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Jeffrey S. Yao (Filipino, 49 years old)

Mr. Jeffrey S. Yao, was appointed to the Board in 1999. On April 01, 2016, he assumed the position of Vice-Chairman

He currently holds directorship at Asiawide Refreshments Corp. He was also appointed the Chief Operating Officer (COO) of the Zest-O Corporation since 2005.

Mr. Yao started his career in the food and beverage industry when he was appointed as Plant Manager at Harman Food Philippines from 1990 to 1995.

He completed trainings in Basic of Trust at the Trust Institute of the Philippines in 2002, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Yao graduated from the Ateneo De Manila University with the degree of Bachelor of Science in Management Engineering.

Committee(s): Asset & Liability, Audit, Credit, Employee Discipline, Executive, IT Steering, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Risk Oversight.

Rolando R. Avante (Filipino, 58 years old)

President & CEO Rolando R. Avante, was appointed to the Board on 02 November 2011. He held the position President and Chief Executive Officer since 02 November 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

His banking career includes Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011.

He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999 and elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punong Bayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors on December 10, 2015.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units, also from DLSU.

Committee(s): Anti-Money Laundering, Asset & Liability, Credit, Employee Discipline, Executive, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Amador T. Vallejos, Jr. (Filipino, 70 years old)

Mr. Amador T. Vallejos, Jr., was appointed to the Board on 27 April 2012 and last re-elected as Director on 27 May 2016.

Currently the General Manager of AMCHEM, he is also the Chairman of King of Travel and President of SMI Development Company.

He held directorships at the Philippine Association of Food Technology in 1988, Philippine Chamber of Food Manufacturer in 1989; and the Philippine Article Numbering Council in 1992.

He is also a member of the Professional Risk Managers International Association (PRMIA) since 2009.

From 1974 to 1976 he held the Marketing Manager position at Rockgas and transferred to Edward Keller Ltd. as the Department Manager from 1976 to 1984.

His expertise and trainings include BAI Conference and Seminars on Technology in Banking taken in 1998 and 1999 both in BAI, USA; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Updated Guidelines on Sound Credit Risk Management on August 07, 2015.

Mr. Vallejos graduated from the Ateneo De Manila University with the degree of Bachelor of Arts in Economics.

Committee(s): Audit, Corporate Governance, IT Steering, and Manpower, Compensation, Remuneration Committee and Risk Oversight.

Honorio O. Reyes- Lao (Filipino, 73 years old)

Mr. Honorio O. Reyes-Lao, was appointed to the Board on 29 April 2011 and last re-elected as Director on 27 May 2016.

A seasoned banker, he has more than 40 years of experience in corporate and investment banking, branch banking and credit management, where he started his banking career at China Banking Corporation in 1973 to 2004. He was appointed Senior Management Consultant in 2005 to 2006 at East West Banking Corporation.

His expertise was sought by Antel Group of Companies, as Consultant, in 2007 to 2009 and was appointed President at Gold Venture Lease and Management Services, Inc. from 2008 to 2009.

Currently, he is an independent and non-executive director at the DMCI Holding Corporation and a Member of the Society of Institute of Corporate Directors (ICD) Fellows since 2004.

His background and trainings include Overall Banking Operations at the Philippine Institute of Banking in 1971 to 1972; Director Certification Program at the Institute of Corporate Directors (ICD) in 2004; and the AMLA Seminar at the Bangko Sentral ng Pilipinas in 2014; ASEAN

Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Lao holds a post-graduate degree, Masters in Business Management, from the Asian Institute of Management and he graduated with a double degree in Bachelor of Science in Business Administration major in Economics and Bachelor of Science in Commerce major in Accountancy from the De La Salle University.

Committee(s): Risk Oversight & Trust.

Danilo A. Alcoseba (Filipino, 65 years old)

Mr. Danilo A. Alcoseba was the former President & CEO of PBB and was appointed to the Board on 27 May 2016. Mr. Alcoseba obtained his college degree, Bachelor of Science in Commerce, Major in Accounting, at the University of San Carlos. He is also a post-graduate in Industrial Economics at the University of the Philippines in 1976. His work experience include: Branch Head at Bancom Development Bank, Cebu Branch from 1977-1979, Assistant Vice-President of Traders Royal Bank from 1979-1983, First Vice-President/Treasury Division of Boston Bank of the Philippines from 1983-1998 and Consultant at SM Investments Corporation from 2005-2007. He also had various trainings and seminars in banking related fields notably in financial derivatives, fixed income trading, foreign exchange, investment banking, corporate governance, risk management and international trade.

Committee(s): He is currently a member of the Audit, Corporate Governance, and Risk Oversight.

Roberto A. Atendido (Filipino, 70 years old)

Mr. Roberto A. Atendido, was appointed to the Board on 26 May 2006 and last re-elected as Director on 27 May 2016.

He is a seasoned investment banker and a recognized expert in the field with over 30 years of investment banking and consulting experience in the Philippines and in the ASEAN region. Mr. Atendido started his career in consulting with the management services group of Sycip, Gorres & Velayo, the largest accounting and consulting group in the Philippines. He began his investment banking career in Bancom Development Corporation, the leading investment house in the Philippines during the late 60's and 70's. He was later posted as Vice President of Bancom International Ltd in HK from 1980-1982. He then moved to PCI Capital Asia, Ltd. (HK) as Vice President from 1982-1983. The PCI Group posted him in Indonesia as Managing Director of PT Duta Perkasa Chandra Inti Leasing, a joint venture between the PCI Group of the Philippines and Bank Duta and Gunung Agung Group of Indonesia, from 1983-1988. Mr. Atendido moved back to the Philippines in 1988 as President of Asian Oceanic Investment House, Inc., a fully owned subsidiary of the Asian Oceanic Group of HK. The company was later bought by the Insular Life Group and renamed Insular Investment & Trust Corporation. In 1996, Mr. Atendido together with several investors organized Asian Alliance Holdings & Development Corporation (AAHDC) and later established Asian Alliance Investment Corp. (AAIC) as a wholly owned investment banking subsidiary. He is currently President of AAHDC and Executive Vice Chairman of AAIC.

Currently, Mr. Atendido is a member of the Board of Directors of Paxys Inc., Philippine Business Bank, PICOP Resources, Inc., Pharmarex, Inc. Ardent Property Development Corp., First Ardent Property Corp., and GEM Communications & Holding Corp. He is also Vice Chairman and Director of Sinag Energy Philippines, Inc., (since 2008), Chairman and President of Myka Advisory and Consulting Services, Inc. (since 2010).

He has also held directorships in the past in the Philippine Stock Exchange (2005-2009), Securities Clearing Corporation (2006-2010), Export & Import Bank as an Independent Director (2006-2012), Marcventures Holdings, Inc. (2010-2013), Carac-An Development Corp. as Chairman from 2010-2013, Beneficial Life Insurance Corp. from 2008-2014.

He has equipped himself with trainings in Corporate Governance & Risk Management for the Bank's Board of Directors at the Development Finance Institute in 2003; Risk Management and Basel 2 Seminar at the Export & Industry Bank in 2007. Earlier this year, he attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series on August 24, 2015, 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015 and 2015 Distinguished Corporate Governance Speaker Series 3 on November 06, 2015

Mr. Atendido is a graduate of the Asian Institute of Management with a Master's in Business Management Degree in 1973. He completed his Bachelor of Science in Management Engineering from the Ateneo de Manila University.

Apart from his business activities, Mr. Atendido is also active in the Brotherhood of Christian Businessmen and Professionals, a nation-wide Christian community where he served as Chairman from 2009-2011.

Committee(s): Audit, Risk Oversight and Corporate Governance.

Leticia M. Yao (Filipino, 64 years old)

Leticia M. Yao was appointed to the Board on 29 April 2011 and last re-elected as Director on 27 May 2016.

A well-respected figure in the healthcare industry, Yao was appointed at the United Doctors Medical Center (UDMC) as a Consultant at the Department of Medicine from 1991 to 2012.

She proceeded along trainings for Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002 and further taken the Risk Awareness Seminar at the Pacific Management Forum in 2009. Earlier this year, she attended the AMLA Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series on August 24, 2015 and Corporate Governance Seminar for Board of Directors on December 10, 2015 to hone her skills as Director of PBB.

Yao graduated from the University of Sto. Tomas with a Bachelor of Science degree in Medical Technology then pursued her post graduate degree in Medicine also from the University of Sto. Tomas.

Committee(s): Trust.

Paterno H. Dizon (Filipino, 79 years old)

Mr. Paterno H. Dizon, was appointed Independent Director to the Board on 27 April 2012 and last re-elected as Independent Director on 27 May 2016.

He had previously served as President to the following institutions: Science Park of the Phil. Inc., Cebu Light Industrial Park, Inc., and RFM Science Park of the Philippines from 1997 to 2003.

Mr. Dizon held directorships at Hermosa Ecozone Development Corp. from 1997 to 2003; Export & Industry Bank from 1994 to 2006; and EIB Securities from 2004 to 2006.

He served on the board of Phil. Export-Import Credit Agency from 2010 to 2012. He was elected as Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present. He has been the President and CEO of Holy Cross College of Pampanga since 2012.

His expertise includes trainings in Financial Management at SGV in 1974, Money and Banking from the Ateneo De Manila University in 1959, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, Risk Awareness Seminar at the Pacific Management Forum in 2009, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; ASEAN Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Dizon holds a Bachelor of Science in Economics from the Ateneo De Manila University and a Master in Business Administration from the University of the Philippines.

Committee(s): Audit, Corporate Governance, and Risk Oversight.

Benjamin R. Sta. Catalina, Jr. (Filipino, 69 years old)

Mr. Benjamin R. Sta. Catalina, Jr., was appointed Independent Director to the Board on July 2012 and last re-elected as Independent Director on 27 May 2016. He first assumed his independent directorship at PBB in 2003 to 2005.

During his early professional years, Mr. Sta. Catalina was the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He later joined Citibank N.A. from 1981 to 1995 where he has served as Asst. Vice President & Division Head for the Public Sector Division, then became the Vice President and Asst. Director of the Asia Pacific Training Center. He later handled the Middle East Africa Division Training Center as Vice President and Associate Director, and then handled the World Corporation Group for Middle East Africa, Division Training Center as Regional Administrator. He was appointed to General Manager and handled the Center for International Banking Studies. In 1993 to 1994, Mr. Sta. Catalina was appointed Vice President and Chief of Staff of the Global Finance Marketing, then rose to

Group Head where he handled the Pan Asian Corporate Team in 1994 to 1995.

In the academic sphere, he was the Executive Director of the Center for Banking and Financial Management of the Asian Institute of Management in 1996.

In addition to holding a number of executive positions, he underwent trainings including Makati CAD in 1974, Philippine Core Credit in 1976, Intermediate Credit Seminar in 1977, Exceptional Sales Performance in 1978, Bourse Game in 1979, Asset Based Finance Seminar in 1980, Electronic Banking Seminar in 1981, Selling Skills Train the Trainer Program in 1982, Advanced Lending Strategy in 1982, Technology for Senior Management in 1983 from the Asia Pacific Training Center. He attended Multinational Business Course in 1980 at Citibank New York, Face to Face Selling Skills in 1986 at the Boston Consulting Group. In 1987 he has attended the MAC Approach Course and Alcar Valuation Seminar at MEAD Training Center in Greece. He attended the Corporate Finance II in 1988 at the Asia Pacific Banking Institute. At MEAD Training Center in London, he attended the Risk Management Seminar and the Risk Management III – Corporate Finance in 1991. From 1993 to 1995, Mr. Sta. Catalina attended the Strengthening Organizational Capabilities, Service Quality Management, Technology Solutions for the Business, Marketing Derivatives Ideas, Standards Workshop, Marketing Financing Ideas to Issuers at Citibank Training Center.

Most recent, he attended the Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2003, and the Anti Money Laundering Act Seminar in 2014, Distinguished Corporate Governance Speaker Series on August 24, 2015 and 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015.

Mr. Sta. Catalina is a graduate of the Asian Institute of Management with a post graduate degree of Masters in Business Management. He finished his Bachelor of Science in Management Engineering from the Ateneo De Manila University.

Committee(s): Audit, Corporate Governance, and Risk Oversight.

b. Executive Officers:

The following are the Executive Officers of the Bank, and their respective age, citizenship and position as of March 31, 2017:

Rolando R. Avante (Filipino, 58 years old)

President & CEO Rolando R. Avante was appointed to the Board on 02 November 2011. He held the position President and Chief Executive Officer since 02 November 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

Mr. Avante, a banking industry veteran with more than three decades of experience, is guiding Philippine Business Bank through a brand resurgence.

His banking career includes Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011.

He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999 and elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punong Bayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors on December 10, 2015.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units, also from DLSU.

Committee(s): Anti-Money Laundering, Asset & Liability, Credit, Employee Discipline, Executive, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Atty. Roberto S. Santos (Filipino, 67 years old)

Attorney Roberto S. Santos is the Corporate Secretary and holds the position of Vice-President and Head of the Legal Services Group. In his 40-year experience in banking and finance, he was a Manager with Traders Royal Bank since 1980 and subsequently held various executive positions with Security Bank from 1982 to 1999 and was also General Manager of Security Finance Company from 1997-2001. He was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004 and joined PBB as Assistant Vice-President in 2008.

Committee(s): Anti-Money Laundering, Employee Discipline, Management, and Remedial & Special Assets Committee.

Joseph Edwin S. Cabalde (Filipino, 47 years old)

Mr. Joseph Edwin S. Cabalde is the Treasurer and holds the position of Senior Vice-President and Head of the Treasury Services Group. His work experience include: Accounting Assistant and Assistant Secretary Head of China Banking Corporation (1991 to 1993), Treasury Officer of Urban Bank Inc. (1993 to 1995), Manager and Chief Dealer of Bangkok Bank Manila, and of Bank of Tokyo Mitsubishi (1995 to 2004), Treasury Head of Oilink International (2004 to 2007), Assistant Vice-President and Treasurer of EEI Corporation (2007 to 2008). He also attended the Corporate Good Governance and AML Seminars sponsored by PBB.

Committee(s): Asset & Liability, IT Steering, and Management.

Teresita S. Sion (Filipino, 64 years old)

Ms. Teresita S. Sion is the Assistant Vice President and Trust Officer of PBB. She started as Per Pro of the Trust Services Group at Philippine Commercial International Bank from 1976 to 1991. She was the Officer-in-Charge of the Trust Banking Group of Metropolitan Bank and Trust Company from 1991 to 1995. In October 1995 she became the Senior Manager of the Trust and Investment Department, the position she held until September of 1998. From October 1998 to November 2006, she was the Vice President and Head of the Trust Banking Group of Export and Industry Bank, Inc. She was the Consultant on Financial Matters of MRC Allied, Inc from August 2008 to May 2009. She was also the Consultant for Trust Banking Sector of Asiatrust Development Bank from May 2009 to July 2009 and in July 2009 was appointed as Vice President and Trust Officer of the same bank until February 2012. She joined PBB in February 2012 as Marketing and Business Development Officer and became the Assistant Vice President and Trust Officer on November of the same year.

Committee(s): Management and Trust Committee.

Efren P. Mercado (Filipino, 67 years old)

Mr. Efren P. Mercado is the Vice President / Head of the PBB's Commercial Banking Group – Centers 3&4. He started as Paymaster at Del Mar Carriers from 1968 to 1970. His banking career started at Philippine Banking Corporation from 1970 to 1988 with a variety of positions from Rank and File to Managerial. He joined China Banking Corporation in 1992 to 2005 and had held several Managerial and Executive positions including Branch Manager, Area Head and Senior Assistant Vice President. He joined PBB in March 2011.

Committee(s): Asset & Liability and Management.

Laurence R. Rapanut (Filipino, 54 years old)

Ms. Laurence R. Rapanut is the Assistant Vice President and Internal Auditor of PBB. Her work experience include: Junior Examiner of Far East Bank and Trust Company (June 1985 to January 1988); Junior Examiner to Branch Controller of First Philippine International Bank (September 1988 to January 1995); Branch Accountant to Senior Assistant Manager of Westmont Bank (April 1996 to December 2000); Senior Assistant Manager to Manager of United Overseas Bank (January 2001 to January 2006). She joined PBB in March 2006 as Supervising Examiner of Internal Audit Center.

Committee(s): Bid, Employee Discipline, and Management.

Felipe V. Friginal (Filipino, 62 years old)

Mr. Felipe V. Friginal is the First Vice-President / Group Head of the Branch Banking Group. His work experience include: Cashier of United Coconut Planters Bank (UCPB) Head Office (1984-1986) Branch Accountant of UCPB, Northern Luzon Branches (1986-1989) Assistant Manager – Cashier of UCPB (1989-1991) Senior Assistant Manager - Cashier of UCPB (1991-1992) Senior Manager of UCPB (1992-1998) Assistant Vice-President – SMC Branch Head of UCPB (1998-1999) Assistant Vice-President GMA 6 Area Head (1999-2003).

Committee(s): Anti-Money Laundering, Asset & Liability, Bid, Credit, Employee Discipline, IT Steering, and Management.

Agustin E. Dingle, Jr. (Filipino, 60 years old)

Mr. Agustin E. Dingle is the First Vice-President / Chief Compliance Officer of PBB. His work experience include: Chief Compliance Officer of China Bank Savings (2010-2012), Head, Reports Section / Accounting Department (1997-1998), Senior Bank Examiner of Central Bank of the Philippines (1985-1994), Reconcilement Analyst of Philippine National Bank (1979-1985) and Loans Bookkeeper of Banco Filipino (1977-1979). He is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants. He held various managerial and executive positions with PBB: Assistant BBG/BOCC head (1998-2001), Internal Auditor and Chief Compliance Officer (2002-2009).

Committee(s): Anti-Money Laundering and Management.

Roselle M. Baltazar (Filipino, 42 years old)

Ms. Roselle M. Baltazar is the First Vice-President / Assistant Comptroller & Head of Central Operations Group of PBB. In 1999, she joined PBB and held various managerial and executive positions including: Senior Manager / Head- central Operations Group (2004-2005), Senior Manager / Head- Branch Operations Control Center (2001-2004), Senior Manager / Head- General Services Group (2001-2003), Manager / Head- Systems and Methods Sector (2000-2001) and Assistant Manager / Senior Systems Analysts (1999-2000). She started her banking career at Westmont Bank (now United Overseas Bank) as: Accountant (1996-1999), Audit Examiner II (1995-1996), Loan Assistant (August-October 1995) and CASA Bookkeeper (June-August 1995). She is a Certified Public Accountant and a Civil Service (Professional & Sub-Professional) passer.

Committee(s): Anti-Money Laundering, IT Steering, and Management.

Eduardo R. Que (Filipino, 55 years old)

Mr. Eduardo R. Que is the Vice-President / Head of Corporate Banking Group. His professional experience include: International Banking (Foreign/Domestic Trade Finance), SWIFT (Society for Worldwide Inter-bank Financial Telecommunication) Operations, Branch Operation Officer Training Program – (class "topnotcher") and Lecturer in the Officer Training Program (OD) for twenty (20) years. Before he joined PBB in 2012 he was the Vice-President/Senior Account Officer in Account Management Division of Allied Banking Corporation.

Committee(s): Asset & Liability and Management.

Clarissa S. Rivera (Filipino, 47 years old)

Ms. Clarissa S. Rivera is the Vice President / Head of Consumer Banking Group of PBB. She graduated with the degree of BSBA-Accounting from Miriam College and is a Certified Public Accountant. Ms. Rivera also holds the degree of Doctor of Business Administration from Colegio de San Juan de Letran. She was previously connected with Planters Development Bank as Manager and Head of Credit and Customer Service (2004 to 2008); Assistant Manager/Account Officer of International Exchange Bank (2002 to 2004); Manager/Account Officer of Asiatrust Bank (2001 to 2002); and occupied various positions with Shopping Center Management Corporation, CIPI Leasing & Finance Corporation and Philippine National Bank. She joined PBB in June 2008.

Committee(s): Asset & Liability and Management.

Miami V. Torres (Filipino, 55 years old)

Ms. Miami V. Torres is the Vice-President / Head of the Credit Management Group. She is a graduate of AB Behavioral Science and BSC Accounting from the University of Santo Tomas. She is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants. She has with her 29 years of banking experience. She started in 1984 as a junior bookkeeper in UCPB, handling SA, CA, CTD, Proofsheet, GL and remittances. She had 2 years experience as a Senior Analyst in the same Bank before she became an officer. As an officer, she was assigned as Branch Operations Officer and Branch Marketing Officer.

Her last stint with UCPB was as Branch Head for Pasay Rotonda Branch. From 2002 to present she held various managerial and executive positions with PBB: Branch Head, Antipolo Branch (2002), Section Head, Remedial & Special Assets Management Group (RSAM) (2003), Head, Credit Services Group (2006-2008), Head, RSAM (2008-2010) and Head, Credit Services Group (2010-present).

Committee(s): Credit and Management.

Atty. Leonardo C. Bool (Filipino, 53 years old)

Atty. Leonardo C. Bool, is the Assistant Corporate Secretary holding the position of Assistant Vice President. He obtained his college degree, Bachelor of Science in Commerce, Major in Accounting, at the University of Santo Tomas. Also, he obtained his Bachelor of Laws (LlB) at the same University. He is a Certified Public Accountant and a Lawyer at the same time. Prior to joining Philippine Business Bank, Atty. Bool was employed with Philippine Banking Corporation (later on merged with Global Business Bank) for 13 years from 1987 to 2000. From 2000 to 2004, he was with Export & Industry Bank (EIB). After his resignation with EIB, starting 2005 to 2010, he engaged in a full time law practice handling civil, criminal, labor, corporate and administrative cases.

Committee(s): Management.

John David D. Sison (Filipino, 32 years old)

Dave Sison joined Philippine Business Bank in July 2014. He leads the Bank's Corporate Planning Group, which plays a key role in the bank's strategic management, investor relations functions, and M&A initiatives. He is also part of the MIS unit that leads the profit planning performance analysis of the Bank as well as assist senior management in the process of decision-making, develop accurate and clear presentation of financial and operational data, and stand as the foundation of the IT process for the core banking system.

Prior to PBB, he was a private equity analyst with KGL Investment Company Asia since 2008. Before joining KGL, Dave was an investment banking associate with PNB Capital & Investment Corporation, a boutique investment bank offering financial advisory, debt syndications, and corporate finance services. He began his career in finance as an investor relations analyst with ABS-CBN Corporation.

He graduated in 2006 with a Bachelor of Science degree in Management Engineering (an Honors Program) from the Ateneo de Manila University where he received training in traditional management disciplines (marketing, finance, operations management, organizational behavior, and strategic management), economics, and the social sciences in combination with skills development in qualitative and quantitative analysis, mathematics, statistics, and operations research.

Committee(s): Asset & Liability and Management.

Belinda C. Rodriguez (Filipino, 55 years old)

Belinda C. Rodriguez joined Philippine Business Bank on January 18, 2016 as Chief Risk Officer (CRO). As CRO, she is responsible for the supervision of the implementation of the risk management framework as part of corporate governance whereby policies and best practices are instituted.

She is a seasoned bank executive with 33 years of experience in the financial services industry and a strong background in enterprise risk management honed from exposure from employment both on the regulator (BSP) and regulated private and government banks. Most recently, she served as First Vice President for Asia United Bank, where she held various positions she held for fifteen years that included the CRO and head of the branch banking & treasury operations.

She held executive positions with Town Savings Bank, Dao Heng Bank, and Land Bank of the Phil. During her career, she has managed a number of activities, including treasury operations and compliance operations. Other areas of expertise include audit, compliance, remittance, and risk reduction through improved controls.

Ms. Rodriguez has participated in various banking industry forums on risk management, regulatory compliance, AMLA, and credit risk. She is a Certified Public Accountant (CPA) and has completed her MBA Degree from the Ateneo Graduate School of Business (AGSB). She is a graduate of Polytechnic University with a degree in Commerce major in Accounting.

Committee(s): Asset & Liability and Management.

Consuelo V. Dantes (Filipino, 54 years old)

Consuelo V. Dantes is appointed as the Human Resources Group Head with the rank of Senior Vice-President effective March 1, 2017. She brings with her 33 years of expertise in the field of Human Resources Management, Corporate Support Services Group and Business Unit Management. She was recently employed with EastWest Bank (EWB) as Human Resources Group Head from (May 16, 2013 to July 31, 2016). Apart from being the Head of HRG, she was also the Chief of Staff (May 16, 2012 to May 15, 2013) under the Office of the President where she worked with 12 units (Credit, Human Resources, Collection and Asset Recovery, Legal Services, Customer Service, Consumer Lending, Corporate Banking and Administrative Services).

Prior to her stint with EWB, she was with PlantersBank (now China Bank Savings) for 22 years (June 18, 1990 to March 31, 2012) where she held various lead positions in Human Resources, Corporate Communications, Corporate Planning, Collection and Asset Recovery. She was an international consultant for Human Resource Management under ShoreCap Exchange, the training arm of ShoreCap International, and worked as consultant with Cambodia Entrepreneur Building Co., Ltd. in Cambodia. She was also speaker/facilitator in seminar-workshops conducted by ShoreCap Exchange in Chennai, India and Luxembourg. Also, during her stint with PlantersBank (now ChinaBank Savings) she was at one point appointed as the President and Chief Operating Officer of PDB-FMO Development Center (PDCenter).

In addition, Ms. Dantes' other banking experiences also include stints with the following banks: Boston Bank of the Philippines (now Bank of Commerce – Branch Marketing and Development

Group / Manager), Asiatrust Bank – Manager of Market Planning Group, (Security Bank Corporation – Branch Manager of Buendia Branch.

A Cum Laude graduate from University of the Philippine – Diliman with a degree in Bachelor of Arts in Economics, she took her MBA units with De La Salle University.

Rosendo G. Sia (Filipino, 61 years old)

Rudy Sia joined Philippine Business Bank in July 2016. He leads the bank's Business Development Group as Senior Vice President and Head of the Visayas and Mindanao Region to assist PBB in acquiring new customers and market additional products or services to existing clients.

He began his career as a bank examiner at the Central Bank of the Philippines from 1984 to 1988, then later joined Land Bank of the Philippines as a Branch Manager from 1988 to 1993 where he was assigned in Tuguegarao, Cebu and Dumaguete. He then transferred to the private sector when he joined Metropolitan Bank & Trust Company from 1993 to 2012 as Branch Head in Manila area where he rose from Senior Manager to Senior Vice President. Before joining PBB he was connected with Asia United Bank as the SVP and Branch Lending Group Head, then became the Region Head for the Visayas and Mindanao Areas from 2012 to 2016.

Mr. Sia is a Certified Public Accountant and a graduate of the De La Salle University in 1977 where he also finished his MBA degree from the same university.

Reynaldo T. Boringot (Filipino, 59 years old)

Rey Boringot joined Philippine Business Bank in July 2016. He leads the bank's Business Development Group as Senior Vice President and Head of the Luzon Region and is responsible for bringing in new business for the bank through a variety of sales techniques and market additional products or services to existing clients.

He began his career with Pacific Bank from 1980 to 1985 then proceeded as an Acting Manager at Metropolitan Bank & Trust Company from 1986 to 2003, then rose as a Senior Manager and Center Head where he was assigned in Malabon and Edsa-Caloocan. He then joined Asia United Bank from 2003 to 2016 as Vice President and Area Head in Edsa-Caloocan.

Mr. Boringot graduated from the University of the East in 1980 with a degree in Bachelor of Science in Commerce major in Management. He took his MBA units from the Phil. School of Business Administration.

Jacqueline A. Korionoff (Filipino, 39 years old)

Jacq is the Asst. Vice President and Center Head of the Commercial Banking I at Philippine Business Bank, a position she has held effective April 1, 2016. Before she joined PBB, she already worked with the banking industry since 2002.

She first started as an executive secretary at the New City Toys Manufacturing from 1999 to 2000, then joined the banking industry as Document Analyst at the Jade Progressive Savings and Mortgage Bank in 2002. She started as a Marketing Assistant in PBB under the Account Management Group 1 from 2001 to 2002, then was promoted to Account Officer from 2002 to 2004. Under the same group, she became an Assistant Manager from 2004 to 2005, then Senior Assistant Manager from 2005 to 2006. In 2006, she was promoted to Manager then to Senior Manager in 2008.

Jacq has participated in various banking seminars, particularly on credit and Corporate Governance. She is a graduate of the University of Santo Tomas with a degree in Bachelor of Arts major in Economics in 1999. She took her Master's in Business Administration in 2004, also from UST where she graduated Cum Laude. She took up a one-year course on Trust Operations and Investment Management from the Trust Institute Foundation of the Philippines of the Asian Institute of Management (AIM) where she passed the course with distinction.

Committee(s): Asset & Liability.

Iris P. Almerino (Filipino, 37 years old)

Iris is the Asst. Vice President and Center Head of the Commercial Banking II at Philippine Business Bank, a position she has held effective April 1, 2016. Before she joined the bank, she already worked with private companies under the accounting department from 2001 to 2006.

She started as a Marketing Assistant in PBB in 2007 to 2009, and then was promoted to Manager and Account Officer from 2009 to 2015 under Account Management Group 1. On that same year Iris was promoted to Senior Manager and Market Head under the Branch Lending Unit 1 where she handled the Binondo and Caloocan accounts.

Iris has participated in various banking seminars, particularly on credit and AMLA. She is a graduate and an academic scholar of the New Era University with a degree in Business Administration major in Management, and is consistent in the dean's list program. She took her Masters in Business Administration degree from Rizal Technological University.

Committee(s): Asset & Liability.

Identify Significant Employees

Although PBB has relied on and will continue to rely on the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Amb. Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Amb. Yao.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers and nominees for election as directors.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Bank have been involved in any legal proceedings during the past five (5) years, including without limitation being the subject of any:

1. Bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;

2. Conviction by a final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Order, judgment or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and

4. Order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In ₱ millions		Aggregate Compensation Paid as a Group		
NAME	**POSITION**	**2014**	**2015**	**2016**
CEO and the four (4) most highly compensated officers of the Bank namely:		20.89	21.95	23.81
Rolando R. Avante	President & CEO			
Alice P. Rodil*	Senior Vice President			
Joseph Edwin S. Cabalde	SVP / Treasurer			
Agustin E. Dingle, Jr.	Chief Compliance Officer			
Felipe V. Friginal	First Vice President			

**Retired as of December 31, 2016*

Total Aggregate Compensation of Directors and Officers of the Bank as a group:	**Salary**	**Other Compensation**	**Bonus**	**Total**
2014	10.02	6.68	4.17	20.89
2015	10.87	6.68	4.40	21.95
2016	12.54	6.53	4.74	23.81

Compensation of Directors

Each director of the Bank receives a per diem allowance of ₱20,000.00 determined by the Board of Directors for attendance in a Board meeting and a ₱5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of ₱5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	199,865,258	37.26%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	135,044,103	25.17%
Total Common Shares				334,909,361	62.43%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to P10.00

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately 4.82% percent of the Company's issued and outstanding common stock as of March 31, 2017 as follows:

Name of Director	Nationality	Present Position	No. of Shares	Class
Francis T. Lee	Filipino	Chairman	22,087,500	Common
Jeffrey S. Yao	Filipino	Vice Chairman	1,350,446	Common
Rolando R. Avante	Filipino	President & CEO	480,040	Common
Honorio O. Reyes-Lao	Filipino	Director	212,499	Common
Amador T. Vallejos, Jr.	Filipino	Director	32,146	Common
Leticia M. Yao	Filipino	Director	1,400,446	Common
Roberto A. Atendido	Filipino	Director	90,625	Common
Danilo A. Alcoseba	Filipino	Director	100	Common
Paterno H. Dizon	Filipino	Independent Director	110,465	Common
Benjamin R. Sta. Catalina	Filipino	Independent Director	46,965	Common
Joseph Edwin S. Cabalde	Filipino	Treasurer	12	Common
Atty. Roberto Santos	Filipino	Corporate Secretary	12,500	Common

The aggregate shareholdings of the Bank's Directors and Officers as a group is 4.82% with a total of 25,823,744 number of shares.

Voting Trust Holders of 5% Or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

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

	2016		2015	
	Transaction	Balance	Transaction	Balance
Entities Under Common Ownership				
Deposit Liabilities	6,891,205,514	6,471,966,695	6,783,959,179	6,579,213,030
Loans	1,217,879,975	1,212,117,019	1,278,906,663	1,257,883,137
Interest Income on Loans	44,013,008	2,832,634	48,498,573	3,406,592
Key Management Compensation	101,934,057	-	83,029,008	-
Retirement Fund				
Contribution	37,133,819	-	37,133,819	-
Plan Assets	83,356	42,457,190	37,164	1,997,083

i. DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2016 and 2015.

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

ii. DOSRI Loans

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

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	December 31, 2016	December 31, 2015
Total outstanding DOSRI loans	₱ 1,212,117,019	₱ 1,257,883,137
Unsecured DOSRI loans	9,856,451	11,312,547
Past due DOSRI loans	-	3,819,459
% to total loan portfolio	2.3%	3.0%
% of unsecured DOSRI loans	0.8%	0.9%
% of past due DOSRI loans	0.0%	0.3%

The details of total outstanding DOSRI Loans for the year ended December 31, 2016 and 2015 are shown below:

	2016	2015
Commercial loans	**P 1,178,196,248**	P 1,223,815,659
Key management personnel	33,920,770	34,067,478
	P 1,212,117,018	P 1,257,883,137

The Bank leases the following properties from affiliated parties:

Property	Owner
Banawe, Quezon City branch	Solmac Marketing Inc.
EDSA Caloocan branch	Solmac Marketing Inc.
Quintin Paredes, Binondo branch	Downtown Realty Corporation
PBB Support Center, Caloocan City	SMI Development Corporation
Yakal Makati branch	AMY Leasing Company

iii. Transactions with Retirement Fund

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

iv. Key Management Personnel Compensation

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

	2016	2015	2014
Salaries and Wages	₱72,088,807	₱58,902,581	₱55,286,737
Bonuses	17,987,189	14,890,912	13,771,434
Post-Employment Defined Benefit	9,024,121	7,004,439	8,701,539
Other Short-term Benefits	1,325,223	1,052,380	683,000
Social Security Costs	1,508,717	1,178,696	1,168,208
Total	**₱92,909,936**	**₱ 83,029,008**	**₱ 79,610,918**

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Philippine Business Bank, Inc. commits to the highest standards of good corporate governance in realizing its vision and mission. The Bank believes that sound corporate practices based on fairness, accountability and transparency is essential in achieving growth and stability as well as enhancing investor confidence.

The Bank aims to create and sustain value for its various stakeholders. To achieve this, the Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility. The Bank accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of the employees.

The Board of Directors conducts its functions as a full Board and through its six (6) committees, namely: Executive, Trust, Corporate Governance and Nomination, Audit, Risk Management and Manpower, Compensation and Remuneration. Board-approved Corporate Governance policies are contained in the Manual of Corporate Governance which is based on the Corporate Code of the Philippines, Securities Regulations Code, SEC Revised Code of Corporate Governance and relevant provisions of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. Every member of the organization of Phlippine Business Bank, Inc. is informed of these policies.

The Bank's Code of Ethics ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. To further emphasize its commitment to integrity, the Philippine Business Bank, Inc., under its Whistle Blowing Policy, encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The policy protects in confidence the identity of the employee who disclosed the suspected offence within the organization.

Philippine Business Bank, Inc. values the contribution of its employees in fostering a culture of good corporate governance. The Human Resource Group and the Personnel Committee ensure that interests and concerns of personnel are heard and addressed.

Going beyond adherence to regulatory framework, Philippine Business Bank, Inc. fosters a culture of partnership within its organization to ensure that long-term success and performance of the Bank are achieved.

The Corporate Governance and Nomination Committee leads the Bank in defining corporate governance policies and attaining best practices. As one of its strategic governance roles, the Corporate Governance and Nomination Committee reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate Governance and the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. The Committee is assisted by the Compliance Office led by the Chief Compliance Officer in the implementation of its mandates.

The Committee, consisting of two (2) independent directors (one of whom acts as chairperson) and one (1) regular director meets every two months.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Annex A …....... Audited Financial Statements

(b) Reports on SEC Form 17-C

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in City of ______________ on__________, 20__.

By:

FRANCIS T. LEE
Chairman

ROLANDO R. AVANTE
President and Chief Executive Officer

ROSELLE M. BALTAZAR
Assistant Comptroller

ROLANDO G. ALVENDIA
Chief Accountant

ATTY. ROBERTO S. SANTOS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of 28 MAR 2017 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	TIN NO.
FRANCIS T. LEE	113-336-814
ROLANDO R. AVANTE	106-968-623
ROSELLE M. BALTAZAR	179-193-899
ROLANDO G. ALVENDIA	107-182-307
ROBERTO S. SANTOS	123-467-623

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PAGE NO. 31
BOOK NO. 7
SERIES OF 17

ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public (NC-304 Valid Until Dec. 2017)
Roll of Attorney's No.53988
PTR No. 8448318; 01.03. 17; Caloocan
IBP No. 1048892; 01 03. 17; Calmana
MCLE Cert No. V-0023535; 08. 16. 16
350 Rizal Ave. Cor. 3rd Ave., Grace Park, Caloocan

Notary Public

PHILIPPINE BUSINESS BANK
a savings bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Philippine Business Bank, Inc.** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended **December 31, 2016**, in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
President & CEO

ROSELLE M. BALTAZAR
COG Head & Assistant Controller

SUBSCRIBED AND SWORN to before me on 06 APR 2017 20__ affiant/s exhibiting to me his/her Government - Issued ID/s bearing his/her Photograph/s and Signature/s

Doc. No. 443
Page No. 90
Book No. 8
Series of 17

Signed this 31st day of March 2017

ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public (NC-304 Valid Until Dec. 2017)
Roll of Attorney's No.53988
PTR No. 8448318; 01.03. 17; Caloocan
IBP No. 1048892; 01 03. 17; Calmana
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P&A Grant Thornton
An instinct for growth™

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The Enterprise Center
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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Business Bank, Inc., A Savings Bank (the Bank), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Proper Measurement of Loans and Other Receivables

Description of the Matter

As of December 31, 2016, the loans and other receivables of the Bank amounted to P51,437,111,465, net of allowance for impairment of P1,233,668,289. Loans and other receivables were the most significant resources of the Bank as it represented 73% of the total resources. Under Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost (such as loans and other receivables) is impaired. The relevant accounting policies of the Bank in the measurement and impairment of financial assets are described in Note 2 to the financial statements. The Bank's management exercised significant judgment and used subjective estimates in determining when and how much to recognize as impairment loss on loans and other receivables. These judgment and estimates are set out in Note 3 to the financial statements. The management makes critical judgments on the credit risk rating classification of each borrower by considering their financial conditions, repayment performance, making industry analysis and assessing management quality. The management also makes significant estimates in individual impairment assessment by discounting estimated future cash flows at its original effective interest rate and in collective impairment assessment by using historical credit loss rates.

The materiality of the balance of loans and other receivables and the subjectivity of management's judgment and estimates in determining the related allowance for impairment are considered to be matters of significance to our audit.

The Bank's disclosures on the loans and other receivables and the related allowance for impairment and, the related credit risk are included in Notes 14 and 4 to the financial statements, respectively.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the allowance for impairment on loans and other receivables, which was considered to be a significant risk, included:

- obtaining an understanding of the Bank's credit policy and loan impairment process;

- testing of controls over the approval, recording and monitoring of loans and other receivables, and calculating and recording of the allowance for impairment;

- checking and evaluating the methodologies, inputs and assumptions used by management whether it was in accordance with the individual and collective impairment assessments prescribed by PAS 39;

- evaluating the management's forecast of recoverable cash flows and valuation of collaterals on selected loans;

- for loan accounts assessed individually, recomputing the recoverable amount determined by the Bank and comparing it against the carrying value as of December 31, 2016; and,

- for loan accounts assessed collectively, assessing the reasonableness of credit loss rates through recomputation using the historical and current data of the Bank.

(b) Valuation of Financial Instruments

Description of the Matter

As of December 31, 2016, the financial assets of the Bank that were carried at fair value are composed of financial assets at fair value through profit or loss and available-for-sale securities amounting to P3,274,168,284 and P3,811,726,524, respectively. The fair valuation of these financial assets was a key area of focus in our audit due to the use of inputs from external sources [i.e. Philippine Dealing & Exchange Corp. (PDEx) and Bloomberg], in computing the market value of these financial assets.

The disclosures of the Bank on exposure to financial instruments valuation risk are included in Note 4 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate;

- testing the inputs by independently comparing such against reliable market sources, such as PDEx and Bloomberg; and,

- recomputing the fair values based on the inputs and comparing with the market values determined by the Bank.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and the Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2016 required by the Bureau of Internal Revenue as disclosed in Note 31 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5908621, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until Apr. 30, 2018)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-7-2014 (until Aug. 5, 2017)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 31, 2017

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	9	**P 1,098,616,524**	P 1,279,302,155
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**6,225,701,096**	7,672,637,783
DUE FROM OTHER BANKS	10	**1,633,340,396**	2,825,982,401
TRADING AND INVESTMENT SECURITIES			
At fair value through profit or loss	11	**3,274,168,284**	75,942,639
Available-for-sale	12	**3,811,726,524**	3,094,538,311
Held-to-maturity	13	-	5,948,727,495
LOANS AND OTHER RECEIVABLES - Net	14	**51,437,111,465**	41,737,830,222
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	**535,995,638**	562,634,722
INVESTMENT PROPERTIES - Net	16	**448,389,581**	675,770,624
OTHER RESOURCES - Net	17	**1,800,547,430**	1,708,795,604
TOTAL RESOURCES		**P 70,265,596,938**	P 65,582,161,956
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	18		
Demand		**P 1,113,474,091**	P 2,318,743,667
Savings		**23,117,049,313**	19,346,525,011
Time		**34,677,237,336**	33,350,950,832
Total Deposit Liabilities		**58,907,760,740**	55,016,219,510
BILLS PAYABLE	19	-	956,250
ACCRUED EXPENSES AND OTHER LIABILITIES	20	**1,787,751,339**	2,095,433,359
Total Liabilities		**60,695,512,079**	57,112,609,119
EQUITY	21		
Capital stock		**5,984,584,370**	5,984,584,370
Additional paid-in capital		**1,998,396,816**	1,998,396,816
Surplus		**1,681,880,366**	1,092,456,161
Revaluation reserves		**(94,776,693)**	(605,884,510)
Total Equity		**9,570,084,859**	8,469,552,837
TOTAL LIABILITIES AND EQUITY		**P 70,265,596,938**	P 65,582,161,956

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	**2016**	2015	2014
INTEREST INCOME				
Loans and other receivables	14	**P 2,753,015,521**	P 2,646,100,805	P 2,366,883,969
Trading and investment securities	11, 12, 13	**347,450,912**	424,837,162	431,775,906
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	**106,688,143**	69,705,482	37,236,220
		3,207,154,576	3,140,643,449	2,835,896,095
INTEREST EXPENSE				
Deposit liabilities	18	**734,334,592**	753,904,091	596,886,481
Bills payable	19	**12,786**	3,331,735	2,221,806
Others	23	**385,402**	1,082,509	1,508,448
		734,732,780	758,318,335	600,616,735
NET INTEREST INCOME		**2,472,421,796**	2,382,325,114	2,235,279,360
IMPAIRMENT LOSSES	14, 17	**157,043,157**	172,050,358	189,887,127
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**2,315,378,639**	2,210,274,756	2,045,392,233
OTHER INCOME				
Trading gains - net	11, 12, 13	**335,383,026**	69,474,667	34,827,391
Service charges, fees and commissions		**151,446,102**	132,425,882	127,487,177
Miscellaneous - net	22	**84,734,375**	73,430,963	144,153,797
		571,563,503	275,331,512	306,468,365
OTHER EXPENSES				
Salaries and other employee benefits	23	**635,523,891**	543,446,728	479,552,337
Taxes and licenses	31	**354,104,708**	328,317,557	306,352,118
Occupancy	27	**274,470,716**	250,346,533	209,871,217
Depreciation and amortization	15, 16	**153,072,322**	137,495,289	122,622,015
Insurance		**139,095,054**	128,348,739	109,164,821
Management and other professional fees		**125,373,997**	93,426,123	88,896,599
Representation and entertainment		**34,865,345**	32,269,518	31,944,122
Miscellaneous	22	**295,973,454**	266,516,503	224,813,032
		2,012,479,487	1,780,166,990	1,573,216,261
PROFIT BEFORE TAX		**874,462,655**	705,439,278	778,644,337
TAX EXPENSE	25	**205,838,450**	203,297,274	242,439,233
NET PROFIT		**P 668,624,205**	P 502,142,004	P 536,205,104
Earnings Per Share				
Basic and Diluted	30	**P 1.10**	P 0.94	P 0.88

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
NET PROFIT		**P 668,624,205**	P 502,142,004	P 536,205,104
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	23	**22,612,985**	3,715,322	(2,187,913)
Tax income (expense)	25	**(6,783,896)**	(1,114,597)	656,374
		15,829,089	2,600,725	(1,531,539)
Items that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale securities during the year - net	12	**772,317,899**	(53,101,385)	124,563,684
Fair value losses (gains) reclassified to profit or loss	12	**(270,581,452)**	6,615,377	393,988,832
Amortization of fair value gains (losses) on reclassified securities	12, 13	**(6,457,719)**	(11,070,376)	4,986,463
		495,278,728	(57,556,384)	523,538,979
Other Comprehensive Income (Loss) - Net of Tax		**511,107,817**	(54,955,659)	522,007,440
TOTAL COMPREHENSIVE INCOME		**P 1,179,732,022**	P 447,186,345	P 1,058,212,544

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Additional Paid-in Capital	Surplus		Revaluation Reserves		Total Equity
		Preferred Stock	Common Stock		Appropriated	Unappropriated	Unrealized Fair Value Losses on Available-for-sale Securities	Accumulated Actuarial Losses	
BALANCE AS OF JANUARY 1, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837
Appropriation for trust reserves	21	-	-	-	1,190,165	(1,190,165)	-	-	-
Cash dividends	21	-	-	-	-	(79,200,000)	-	-	(79,200,000)
Total comprehensive income	12, 23, 25	-	-	-	-	668,624,205	495,278,728	15,829,089	1,179,732,022
BALANCE AS OF DECEMBER 31, 2016		**P 620,000,000**	**P 5,364,584,370**	**P 1,998,396,816**	**P 5,989,552**	**P 1,675,890,814**	**(P 82,019,677)**	**(P 12,757,016)**	**P 9,570,084,859**
BALANCE AS OF JANUARY 1, 2015		P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492
Stock dividends	21	-	1,072,916,870	-	-	(1,072,916,870)	-	-	-
Appropriation for trust reserves	21	-	-	-	1,387,487	(1,387,487)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	502,142,004	(57,556,384)	2,600,725	447,186,345
BALANCE AS OF DECEMBER 31, 2015		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837
BALANCE AS OF JANUARY 1, 2014		P 620,000,000	P 3,433,334,000	P 1,998,396,816	P 1,764,202	P 2,045,920,221	(P 1,043,281,000)	(P 29,655,291)	P 7,026,478,948
Stock dividends	21	-	858,333,500	-	-	(858,333,500)	-	-	-
Cash dividends	21	-	-	-	-	(62,325,000)	-	-	(62,325,000)
Appropriation for trust reserves	21	-	-	-	1,647,698	(1,647,698)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	536,205,104	523,538,979	(1,531,539)	1,058,212,544
BALANCE AS OF DECEMBER 31, 2014		P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 874,462,655	P 705,439,278	P 778,644,337
Adjustments for:				
Gain on sale of available-for-sale (AFS) securities		(323,546,622)	(58,211,032)	(16,408,262)
Impairment losses	14, 17	157,043,157	172,050,358	189,887,127
Depreciation and amortization	15, 16	153,072,322	137,495,289	122,622,015
Gain on sale of properties - net	22	(14,957,797)	(15,028,632)	(27,801,013)
Loss (gain) on foreclosure - net	22	-	2,480,845	(87,676,870)
Operating profit before working capital changes		846,073,715	944,226,106	959,267,334
Decrease (increase) in financial assets at fair value through profit or loss		(3,198,225,645)	95,949,165	745,739,073
Increase in loans and other receivables		(10,292,691,231)	(1,811,234,055)	(9,327,174,393)
Increase in other resources		(114,557,645)	(459,404,376)	(30,923,718)
Increase in deposit liabilities		3,735,627,968	8,396,811,884	8,737,396,882
Increase (decrease) in accrued expenses and other liabilities		(489,921,837)	(879,949,701)	745,196,586
Cash generated from (used in) operations		(9,513,694,675)	6,286,399,023	1,829,501,764
Cash paid for income taxes		(223,708,542)	(185,189,537)	(177,589,674)
Net Cash From (Used in) Operating Activities		(9,737,403,217)	6,101,209,486	1,651,912,090
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of AFS securities		9,013,850,949	896,760,480	1,552,254,682
Acquisition of AFS securities	12	(1,844,594,612)	(2,274,907,422)	(443,590,778)
Proceeds from sale of investment and other properties	16, 17	422,360,427	55,820,368	128,723,649
Payments for business combination	17	(223,539,299)	(275,104,857)	(15,000,000)
Acquisition of bank premises, furniture, fixtures and equipment	15	(142,983,302)	(178,055,371)	(149,373,100)
Proceeds from sale of bank premises, furniture, fixtures and equipment	15	33,672,003	6,236,962	268,663
Net Cash From (Used In) Investing Activities		7,258,766,166	(1,769,249,840)	1,073,283,116
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availments (settlements) of bills payable		(956,250)	(308,565,602)	115,594,051
Payment of cash dividends	21	-	-	(62,325,000)
Net Cash From (Used In) Financing Activities		(956,250)	(308,565,602)	53,269,051
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(2,479,593,301)	4,023,394,044	2,778,464,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	1,279,302,155	1,174,011,464	735,667,668
Due from Bangko Sentral ng Pilipinas	9	7,672,637,783	4,554,441,827	3,597,209,300
Due from other banks	10	2,825,982,401	2,031,581,088	671,482,943
Foreign currency notes and coins on hand	17	63,871,020	58,364,936	35,575,147
		11,841,793,359	7,818,399,315	5,039,935,058
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	1,098,616,524	1,279,302,155	1,174,011,464
Due from Bangko Sentral ng Pilipinas	9	6,225,701,096	7,672,637,783	4,554,441,827
Due from other banks	10	1,633,340,396	2,825,982,401	2,031,581,088
Securities under reverse repurchase agreement	14	345,154,260	-	-
Foreign currency notes and coins on hand	17	59,387,782	63,871,020	58,364,936
		P 9,362,200,058	P 11,841,793,359	P 7,818,399,315

Supplemental Information on Noncash Investing and Financing Activities:

(1) On December 29, 2016, the Bank's Board of Directors approved the declaration of cash dividends on preferred shares amounting to P79.2 million. As of December 31, 2016, the cash dividends remain unpaid (see Note 21).

(2) In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities with a carrying value of P6,085.7 million. The entire reclassified HTM investments were subsequently disposed of within the same year (see Note 13).

(3) In 2016, the Bank reclassified to AFS securities certain corporate debt securities included as part of loans and other receivables amounting to P698.2 million (see Note 14).

(4) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P175.7 million, P29.1 million and P284.2 million in 2016, 2015 and 2014, respectively (see Note 16), while transfers from loans and other receivables to other resources in 2016, 2015 and 2014 amounted to P16.2 million, P0.5 million and P1.0 million, respectively (see Note 17). Amounts mentioned were exclusive of gains (losses) on foreclosure amounting to (P2.5 million) and P87.7 million in 2015 and 2014, respectively (nil in 2016) (see Note 22).

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

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

Other Information -

Securities under reverse repurchase agreement and Foreign currency notes and coins are included as part of Cash and Cash Equivalents for cash flow purposes but are presented as part of Loans and Other Receivables and Other Resources, respectively, in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP.

The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws. On April 1, 2010, PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under Republic Act Nos. 8791 and 7906 and the Manual of Regulations for Banks.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.1).

As of December 31, 2016 and 2015, the Bank operates within the Philippines with 139 and 134 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014) were authorized for issue by the Bank's Board of Directors (BOD) on March 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System closing rates (PDSCR) at the end of reporting period (for the statement of financial position accounts) and at the average PDSCR for the period (for profit and loss accounts).

2.2 Adoption of New and Amended PFRS

(a) Effective in 2016 that are Relevant to the Bank

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

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

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

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative.* The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, they clarify that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. They further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

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

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

(iv) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify the existing requirements:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

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

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

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

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

(c) Effective Subsequent to 2016 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments,* is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

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

2.5 Financial Assets

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

(a) Classification, Measurement and Reclassification of Financial Assets

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

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

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

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less from placement date.

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

(iii) *HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities. In accordance with PAS 39, the whole HTM category was tainted [see Notes 3.1(a) and 13]. The entire reclassified HTM investments were subsequently disposed of within the same year.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities, corporate bonds and equity securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

(b) Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it is probable that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or, (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

(ii) Carried at Fair Value – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through profit or loss.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(iii) Carried at Cost – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

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

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments

The Bank uses derivative financial instruments, particularly plain vanilla foreign exchange swaps, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive (recognized as part of Miscellaneous under Other Resources account) and as liabilities (recognized under Accrued Expenses and Other Liabilities account) when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 Financial Liabilities

Financial liabilities include Deposit Liabilities, Bills Payable and Accrued Expenses and Other Liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

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

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

2.9 Other Resources

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

2.10 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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

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

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

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

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.11 Investment Properties

Investment properties pertain to land and buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held by Bank either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

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

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain or loss on sale of properties under Miscellaneous Income or Expenses in the statement of profit or loss, in the year of retirement or disposal.

2.12 Intangible Assets

Intangible assets include goodwill, acquired branch licenses and computer software included as part of Other Resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.13 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

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

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise of the remeasurements of post-employment defined benefit plan and unrealized fair value gains (losses) on mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's funded retirement plan.

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

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs and expenses incurred and to be incurred can be measured reliably. Cost and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Interest Income and Expense

Interest income and expense are recognized in the statement of profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

(b) Trading Gains or Losses

Trading gains or losses are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains or losses also include result from the mark-to-market valuation of the securities classified as financial assets at FVTPL at the valuation date and gain or loss from foreign exchange trading.

(c) Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.17 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

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

(b) *Bank as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, computer software, other properties held-for-sale (classified as part of Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing & Exchange Corp. (PDEx) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Earnings Per Share

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

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the Securities and Exchange Commission. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2016 and 2015, the Bank has no convertible preferred shares (see Note 21.1).

2.23 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.24 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Classification of Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances as allowed under the standards, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities, which were subsequently disposed of within the same year (see Note 13). The whole HTM investments category was accordingly tainted and the Bank is prohibited from holding investments under HTM investments category for the next two financial reporting years [see Note 2.5(a)(iii)].

(b) Impairment of AFS Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management assessed that no securities are impaired as of December 31, 2016 and 2015. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Distinction Between Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Classification of Acquired Properties and Determination of Fair Value of Investment Properties and Other Properties Held-for-Sale

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets (properties other than land and building) in accordance with PAS 39.

At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

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

(e) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of December 31, 2016 and 2015, the Bank has determined that all its leases are operating leases (see Note 27).

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 27.

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

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

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

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

The Bank reviews its AFS securities, HTM investments and loans and other receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Note 14. There are no impairment losses recognized on AFS securities and HTM investments in 2016, 2015 and 2014.

(b) Fair Value Measurement of Financial Instruments

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

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

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

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, except land, and other resources (e.g. computer software and branch licenses) based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and other resources (e.g. computer software and branch licenses) are analyzed in Notes 15, 16 and 17, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which the management assessed to be fully utilized in the coming years, as of December 31, 2016 and 2015 is disclosed in Notes 17 and 25.

(e) Determination of Fair Value of Investment Properties

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

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

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

(f) Estimation of Impairment Losses of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(g) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

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

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

4.1 Risk Management

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

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

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

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

4.2 Enterprise Risk Management Framework

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

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

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

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

Exposure to Credit Risk

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

	Notes	**2016**	2015
Due from BSP	9	**P 6,225,701**	P 7,672,638
Due from other banks	10	**1,633,340**	2,825,982
Financial assets at FVTPL	11	**3,274,168**	75,943
AFS securities	12	**3,810,027**	3,092,838
HTM investments	13	**-**	5,948,727
Loans and other receivables – net	14	**51,437,111**	41,737,830
Other resources	17	**30,190**	29,118
		P 66,410,537	P 61,383,076

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

(i) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents with credit risk are Due from BSP, Due from Other Banks, and SPURRA under Loans and Other Receivables. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

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

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

(iii) Loans and Other Receivables

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

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2016 and 2015 (amounts in thousands):

	2016	2015
Individually impaired		
Wholesale and retail trade	**P 433,125**	P 523,163
Services	**270,126**	370,977
Consumption	**141,279**	87,060
Manufacturing	**136,849**	131,050
Real estate, renting and construction	**119,146**	413,800
Others	**581,601**	555,143
Gross amount	**1,682,126**	2,081,193
Allowance for impairment	**(888,470)**	(700,825)
Carrying amount	**793,656**	1,380,368
Collectively impaired		
Wholesale and retail trade	**11,420,466**	11,163,616
Services	**10,122,336**	5,989,315
Real estate, renting and construction	**4,596,961**	3,516,952
Manufacturing	**4,471,631**	2,597,782
Others	**328,687**	687,531
Gross amount	**30,940,081**	23,955,196
Allowance for impairment	**(345,198)**	(375,800)
Carrying amount	**30,594,883**	23,579,396
Past due but not impaired		
Carrying amount	**20,403**	68,943
Neither past due nor impaired		
Carrying amount	**20,028,169**	16,709,123
Total carrying amount	**P 51,437,111**	P 41,737,830

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

An aging of past due but not impaired accounts of loans and other receivables reckoned from the last payment date follows (amounts in thousands):

	2016	2015
Up to 30 days	**P 20,402**	P 65,714
31 to 60 days	**-**	3,229
	P 20,403	P 68,943

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Trading and Investment Securities, Due from Other Banks and Derivative financial assets under Other Resources amounting to P7,084.2 million, P1,633.3 million and P0.5 million, respectively, as of December 31, 2016 and P9,117.5 million, P2,826.0 million and P1.1 million, respectively, as of December 31, 2015. These are considered as neither past due nor impaired.

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

4.4 Market Risk

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

Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2016 and 2015 follow (amounts in thousands):

	2016		
	Foreign Currency	**Philippine Peso**	**Total**
Financial Assets:			
Cash and other cash items	P -	P 1,098,617	P 1,098,617
Due from BSP	-	6,225,701	6,225,701
Due from other banks	862,129	771,211	1,633,340
Financial assets at FVTPL	48,701	3,225,467	3,274,168
AFS securities	2,796,477	1,015,250	3,811,727
Loans and other receivables - net	1,196,171	50,240,940	51,437,111
Other resources	58,240	31,681	89,921
	P 4,961,718	**P 62,608,867**	**P 67,570,585**
Financial Liabilities:			
Deposit liabilities	P 4,805,746	P 54,102,015	P 58,907,761
Accrued expenses and other liabilities	-	1,605,710	1,605,710
	P 4,805,746	**P 55,707,725**	**P 60,513,471**

	2015		
	Foreign Currency	Philippine Peso	Total
Financial Assets:			
Cash and other cash items	P -	P 1,279,302	P 1,279,302
Due from BSP	-	7,672,638	7,672,638
Due from other banks	2,372,753	453,229	2,825,982
Financial assets at FVTPL	-	75,943	75,943
AFS securities	2,990,980	103,558	3,094,538
HTM investments	461,114	5,487,613	5,948,727
Loans and other receivables - net	569,439	41,168,391	41,737,830
Other resources	92,932	319	93,251
	P 6,487,218	P 56,240,993	P 62,728,211
Financial Liabilities:			
Deposit liabilities	P 6,458,745	P 48,557,475	P 55,016,220
Bills payable	-	956	956
Accrued expenses and other liabilities	1,886	1,936,797	1,938,683
	P 6,460,631	P 50,495,228	P 56,955,859

(b) Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing resources and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-book financial position items as of December 31, 2016 and 2015 based on the expected interest realization or recognition are in the succeeding pages (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2016						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,098,617	P 1,098,617
Due from BSP	6,225,701	-	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	-	1,633,340
Trading and investment securities	29,967	25,945	-	7,028,283	1,700	7,085,895
Loans and other receivables - net	32,252,007	6,145,414	3,829,367	2,123,885	7,086,438	51,437,111
Other resources*	-	-	-	-	2,784,933	2,784,933
Total Resources	40,141,015	6,171,359	3,829,367	9,152,168	10,971,688	70,265,597
Liabilities and Equity:						
Deposit liabilities	15,021,238	10,267,125	8,531,549	871,958	24,215,891	58,907,761
Accrued expenses and other liabilities	-	-	-	-	1,787,751	1,787,751
Total Liabilities	15,021,238	10,267,125	8,531,549	871,958	26,003,642	60,695,512
Equity	-	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	15,021,238	10,267,125	8,531,549	871,958	35,573,727	70,265,597
On-book Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(24,602,039)	-
Cumulative On-book Gap	25,119,777	21,024,011	16,321,829	24,602,039	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,411,317	1,411,317
Off-book Gap	-	-	-	-	(1,411,317)	(1,411,317)
Net Periodic Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(26,013,356)	(1,411,317)
Cumulative Total Gap	**P25,119,777**	**P21,024,011**	**P16,321,829**	**P24,602,039**	**(P 1,411,317)**	**P -**
2015						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,279,302	P 1,279,302
Due from BSP	7,672,638	-	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	-	2,825,982
Trading and investment securities	58,873	20,086	6,521	9,032,028	1,700	9,119,208
Loans and other receivables - net	29,654,273	3,273,654	3,501,767	5,308,136	-	41,737,830
Other resources*	-	-	-	-	2,947,202	2,947,202
Total Resources (*balance carried forward*)	P40,211,766	P 3,293,740	P 3,508,288	P14,340,164	P 4,228,204	P 65,582,162

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
Total Resources (*balance brought forward*)	P40,211,766	P 3,293,740	P 3,508,288	P14,340,164	P 4,228,204	P 65,582,162
Liabilities and Equity:						
Deposit liabilities	17,087,810	8,513,338	7,369,904	22,045,168	-	55,016,220
Bills payable	-	-	956	-	-	956
Accrued expenses and other liabilities	-	-	-	-	2,095,433	2,095,433
Total Liabilities	17,087,810	8,513,338	7,370,860	22,045,168	2,095,433	57,112,609
Equity	-	-	-	-	8,469,553	8,469,553
Total Liabilities and Equity	17,087,810	8,513,338	7,370,860	22,045,168	10,564,986	65,582,162
On-book Gap	23,123,956	(5,219,598)	(3,862,572)	(7,705,004)	(6,336,782)	-
Cumulative On-book Gap	23,123,956	17,904,358	14,041,786	6,336,782	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,341,367	1,341,367
Off-book Gap	-	-	-	-	(1,341,367)	(1,341,367)
Net Periodic Gap	23,123,956	(5,219,598)	(3,862,572)	(7,705,004)	(7,678,149)	(1,341,367)
Cumulative Total Gap	P23,123,956	P17,904,358	P14,041,786	P 6,336,782	(P 1,341,367)	P -

(c) Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the PDEx and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and ten days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

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

	2016	2015
VaR Position:		
Financial assets at FVTPL	**P 4,404**	P 1,440
AFS securities	**1,180**	1,451
VaR Ranges:		
Minimum	**P 318**	P 6,214
Maximum	**4,825**	11,200
Average	**1,758**	1,787

Stress test on the December 31, 2016 and 2015 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

2016

Currency	**Current Market Value**	**Sensitivities +100 bps**	**Sensitivities +300 bps**	**Sensitivities +500 bps**
Philippine peso	P4,240,717,456	(P 290,148,383)	(P 870,445,148)	(P 1,450,741,914)
US dollar	2,845,177,352	(270,291,848)	(810,875,545)	(1,351,459,242)
Total	**P7,085,894,808**	**(P 560,440,231)**	**(P1,681,320,694)**	**(P 2,802,201,156)**

2015

Currency	Current Market Value	Sensitivities +100 bps	Sensitivities +300 bps	Sensitivities +500 bps
Philippine peso	P 179,500,605	(P 13,233,739)	(P 39,701,216)	(P 66,168,694)
US dollar	2,990,980,345	(333,852,546)	(1,001,557,637)	(1,669,262,728)
Total	P3,170,480,950	(P 347,086,285)	(P1,041,258,853)	(P 1,735,431,422)

(d) Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-book financial position items as of December 31, 2016 and 2015 is presented below and in the next page (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2016					
Resources:					
Cash and other cash items	P 1,098,617	P -	P -	P -	P 1,098,617
Due from BSP	6,225,701	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	1,633,340
Trading and investment securities	29,961	24,922	1,012	7,030,000	7,085,895
Loans and other receivables	10,200,458	12,256,627	13,583,207	15,396,819	51,437,111
Other resources*	21,410	4,722	105,353	2,653,448	2,784,933
Total Resources	19,209,487	12,286,271	13,689,572	25,080,267	70,265,597
Liabilities and Equity:					
Deposit liabilities	39,151,368	10,352,886	8,531,549	871,958	58,907,761
Accrued expenses and other liabilities	1,646,275	2,064	102,668	36,744	1,787,751
Total Liabilities	40,797,643	10,354,950	8,634,217	908,702	60,695,512
Equity	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	40,797,643	10,354,950	8,634,217	10,478,787	70,265,597
On-book Gap	(21,588,156)	1,931,321	5,055,355	14,601,480	-
Cumulative On-book Gap	(21,588,156)	(19,656,835)	(14,601,480)	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	(21,617,821)	1,344,313	4,372,720	14,563,979	(1,366,809)
Cumulative Total Gap	**(P 21,617,821)**	**(P 20,273,508)**	**(P 15,900,788)**	**(P 1,336,809)**	**P -**
2015					
Resources:					
Cash and other cash items	P 1,279,302	P -	P -	P -	P 1,279,302
Due from BSP	7,672,638	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	2,825,982
Trading and investment securities	135,372	20,113	4,821	8,958,902	9,119,208
Loans and other receivables	8,007,087	10,555,930	10,790,464	12,384,349	41,737,830
Other resources*	452,757	-	133,815	2,360,630	2,947,202
Total Resources (*balance carried forward*)	P 20,373,138	P 10,576,043	P 10,929,100	P 23,703,881	P 65,582,162

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Total Resources (*balance brought forward*)	P 20,373,138	P 10,576,043	P 10,929,100	P 23,703,881	P 65,582,162
Liabilities and Equity:					
Deposit liabilities	8,727,282	13,153,235	11,609,010	21,526,693	55,016,220
Bills payable	-		956		956
Accrued expenses and other liabilities	2,285,952	22,737	51,570	(264,826)	2,095,433
Total Liabilities	11,013,234	13,175,972	11,661,536	21,261,867	57,112,609
Equity	-	-	-	8,469,553	8,469,553
Total Liabilities and Equity	11,013,234	13,175,972	11,661,536	29,731,420	65,582,162
On-book Gap	9,359,904	(2,599,929)	(732,436)	(6,027,539)	-
Cumulative On-book Gap	9,359,904	6,759,975	6,027,539	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	9,330,239	(3,186,937)	(1,415,071)	(6,065,040)	(1,336,809)
Cumulative Total Gap	P 9,330,239	P 6,143,302	P 4,728,231	(P 1,336,809)	P -

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the ROC for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

4.5 Operational Risk

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

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

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

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) *Reputational Risk*

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

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

(b) *Legal Risk and Regulatory Risk Management*

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

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

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

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

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

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

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

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

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

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

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

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

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

The following are the risk-based capital adequacy of the Bank as of December 31, 2016, 2015 and 2014 (amounts in millions):

	2016	2015	2014
Net Tier 1 Capital	**P 9,241**	P 8,709	P 8,275
Tier 2 Capital	**470**	376	407
Total Qualifying Capital	**P 9,711**	P 9,085	P 8,682
Risk Weighted Assets			
Credit Risk Weighted Assets	**P 48,738**	P 43,382	P 38,348
Operational Risk Weighted Assets	**3,930**	3,580	3,233
Market Risk Weighted Assets	**4,477**	4,378	139
Total Risk-Weighted Assets	**P 57,145**	P 51,340	P 41,720

	2016	2015	2014
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**17.0%**	17.7%	20.8%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**16.2%**	17.0%	19.8%

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

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

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

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

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

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

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

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

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

As of December 31, 2016 and 2015, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2016 and 2015, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

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

	Notes	Carrying Values	Fair Values
December 31, 2016:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	**P 1,098,616,524**	**P 1,098,616,524**
Due from BSP	9	**6,225,701,096**	**6,225,701,096**
Due from other banks	10	**1,633,340,396**	**1,633,340,396**
Loans and other receivables	14	**51,437,111,465**	**51,437,111,465**
Other resources	17	**89,390,653**	**89,390,653**
Financial assets at FVTPL	11	**3,274,168,284**	**3,274,168,284**
AFS securities	12	**3,811,726,524**	**3,811,726,524**
Derivative financial assets	17	**529,631**	**529,631**
		P 67,570,584,573	**P 67,570,584,573**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	**P 58,907,760,740**	**P 58,907,760,740**
Accrued expenses and other liabilities	20	**1,605,709,712**	**1,605,709,712**
		P 60,513,470,452	**P 60,513,470,452**
December 31, 2015:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	P 1,279,302,155	P 1,279,302,155
Due from BSP	9	7,672,637,783	7,672,637,783
Due from other banks	10	2,825,982,401	2,825,982,401
Loans and other receivables	14	41,737,830,222	41,737,830,222
Other resources	17	92,151,704	92,151,704
Financial assets at FVTPL	11	75,942,639	75,942,639
AFS securities	12	3,094,538,311	3,094,538,311
HTM investments	13	5,948,727,495	5,918,817,190
Derivative financial assets	17	1,099,128	1,099,128
		P 62,728,211,838	P 62,698,301,533

	Notes	Carrying Values	Fair Values
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	P 55,016,219,510	P 55,016,219,510
Bills payable	19	956,250	956,250
Accrued expenses and other liabilities	20	1,936,797,170	1,936,797,170
At fair value –			
Derivative liabilities	20	1,886,043	1,886,043
		P 56,955,858,973	P 56,955,858,973

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets of the Bank with net amounts presented in the statements of financial position as of December 31, 2016 and 2015 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial assets	**Financial liabilities available for set-off**	**Collateral received**	**Net Amount**
December 31, 2016				
Loans and receivables				
Receivables from customers	**P 3,304**	**P -**	**P 3,304**	**P -**
December 31, 2015				
Loans and receivables				
Receivables from customers	P 2,693	P 1	P 2,691	P 1

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

	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
December 31, 2016				
Deposit liabilities	**P 3,304**	**P 3,304**	**P -**	**P -**
December 31, 2015				
Deposit liabilities	P 2,691	P 2,691	P -	P -
Bills payable	1	-	1	-
	P 2,692	P 2,691	P 1	P -

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

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2016 and 2015 (amounts in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets at FVTPL				
Government bonds	**P 1,043**	**P 2,231**	**P -**	**P 3,274**
AFS securities				
Government debt securities	**1,381**	**88**	**-**	**1,469**
Corporate debt securities	**2,341**	**-**	**-**	**2,341**
	3,722	**88**	**-**	**3,810**
Derivative financial assets	**-**	**1**	**-**	**1**
	P 4,765	**P 2,320**	**P -**	**P 7,085**
December 31, 2015				
Financial assets at FVTPL				
Government bonds	P -	P 76	P -	P 76
AFS securities				
Government debt securities	1,853	78	-	1,931
Corporate debt securities	1,162	-	-	1,162
	3,015	78	-	3,093
Derivative financial assets	-	1	-	1
	P 3,015	P 155	P -	P 3,170

The Bank has golf club shares amounting to P1.7 million as of December 31, 2016 and 2015 and are presented as part of AFS Securities in the statements of financial position. This is stated at cost as the carrying amounts of these financial instruments approximate their fair values.

The Bank has no outstanding derivative liabilities as of December 31, 2016. As of December 31, 2015, it had an outstanding derivative liabilities presented under Accrued Expenses and Other Liabilities in the statements of financial position amounting to P1.9 million (see Note 20). Derivative liabilities are categorized within Level 2, and are determined through valuation techniques using the net present value computation.

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial Assets:				
Cash and other cash items	P 1,099	P -	P -	P 1,099
Due from BSP	6,226	-	-	6,226
Due from other banks	1,633	-	-	1,633
Loans and other receivable	-	-	51,437	51,437
Other resources	89	-	-	89
	P 9,047	**P -**	**P 51,437**	**P 60,484**
Financial Liabilities:				
Deposit liabilities	P 58,908	P -	P -	P 58,908
Accrued expenses and other liabilities	-	-	1,606	1,606
	P 58,908	**P -**	**P 1,606**	**P 60,514**
December 31, 2015				
Financial Assets:				
Cash and other cash items	P 1,279	P -	P -	P 1,279
Due from BSP	7,673	-	-	7,673
Due from other banks	2,826	-	-	2,826
HTM investments	529	5,390	-	5,919
Loans and other receivable	-	-	41,738	41,738
Other resources	92	-	-	92
	P 12,399	P 5,390	P 41,738	P 59,527
Financial Liabilities:				
Deposit liabilities	P 55,016	P -	P -	P 55,016
Bills payable	-	-	1	1
Accrued expenses and other liabilities	-	-	1,937	1,937
	P 55,016	P -	P 1,938	P 56,954

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

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

(a) Due from BSP and Other Banks

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

(b) Loans and Other Receivables

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

(c) Other Resources

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

(d) Deposits and Bills Payable

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

(e) Accrued Expenses and Other Liabilities

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

7.4 Fair Value Measurement of Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy, amounted to P617.3 million and P803.3 million as of December 31, 2016 and 2015, respectively.

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

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

(a) Fair Value Measurement for Land

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

(b) Fair Value Measure for Building and Improvements

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

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2016 and 2015.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;

(b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2016, 2015 and 2014 are as follows (amounts in millions):

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2016				
Statement of Profit or Loss				
Net interest income	P 2,007	P 204	P 261	P 2,472
Non-interest income	229	7	336	572
Total income (after interest expense)	2,236	211	597	3,044
Operating expenses	(1,586)	(100)	(484)	(2,170)
Pre-tax profit	650	111	113	874
Tax expense	(153)	(26)	(26)	(205)
Net profit	**P 497**	**P 85**	**P 87**	**P 669**
Statement of Financial Position				
Total Resources				
Segment assets	P 49,630	P 3,565	P 16,605	P 69,800
Intangible assets	52	-	-	52
Deferred tax assets	414	-	-	414
	P 50,096	**P 3,565**	**P 16,605**	**P 70,266**
Total Liabilities	**P 43,078**	**P 3,021**	**P 14,597**	**P 60,696**
Other segment information				
Depreciation and amortization	**P 109**	**P 7**	**P 37**	**P 153**
Capital expenditures	**P 103**	**P 7**	**P 33**	**P 143**

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2015				
Statement of Profit or Loss				
Net interest income	P 1,921	P 173	P 288	P 2,382
Non-interest income	196	9	70	275
Total income (after interest expense)	2,117	182	358	2,657
Operating expenses	(1,387)	(76)	(489)	(1,952)
Pre-tax profit (loss)	730	106	(131)	705
Tax income (expense)	(210)	(31)	38	(203)
Net profit (loss)	P 520	P 75	(P 93)	P 502
Statement of Financial Position				
Total Resources				
Segment assets	P 40,634	P 3,027	P 21,522	P 65,183
Intangible assets	56	-	-	56
Deferred tax assets	343	-	-	343
	P 41,033	P 3,027	P 21,522	P 65,582
Total Liabilities	P 38,978	P 2,428	P 15,707	P 57,113
Other segment information				
Depreciation and amortization	P 93	P 6	P 38	P 137
Capital expenditures	P 163	P 2	P 13	P 178
December 31, 2014				
Statement of Profit or Loss				
Net interest income	P 1,573	P 144	P 518	P 2,235
Non-interest income	271	-	35	306
Total income (after interest expense)	1,844	144	553	2,541
Operating expenses	(1,304)	(61)	(398)	(1,763)
Pre-tax profit	540	83	155	778
Tax expense	(162)	(28)	(52)	(242)
Net profit	P 378	P 55	P 103	P 536
Statement of Financial Position				
Total Resources				
Segment assets	P 39,321	P 2,229	P 15,968	P 57,518
Intangible assets	51	-	-	51
Deferred tax assets	286	-	-	286
	P 39,658	P 2,229	P 15,968	P 57,855
Total Liabilities	P 35,310	P 1,918	P 12,604	P 49,832
Other segment information				
Depreciation and amortization	P 86	P 5	P 32	P 123
Capital expenditures	P 137	P 2	P 10	P 149

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2016	2015
Cash and other cash items	**P 1,098,616,524**	P1,279,302,155
Due from BSP		
Mandatory reserves	**4,265,701,096**	3,802,637,783
Other than mandatory reserves	**1,960,000,000**	3,870,000,000
	6,225,701,096	7,672,637,783
	P 7,324,317,620	P8,951,939,938

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items [other than currency and coins on hand (see Note 17)] such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

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

Due from BSP bears annual effective interest rates ranging from 0.0% to 2.5% in 2016, 2015 and 2014, except for the amounts within the required reserve as determined by the BSP. The total interest income earned amounted to P89.1 million, P58.6 million and P31.2 million in 2016, 2015 and 2014, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2016	2015
Local banks	**P 991,507,588**	P2,036,612,414
Foreign banks	**641,832,808**	789,369,987
	P 1,633,340,396	P2,825,982,401

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2016, 2015 and 2014. The total interest income earned amounted to P17.6 million, P11.1 million and P6.0 million in 2016, 2015 and 2014, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	2016	2015
US dollars	**P 862,128,548**	P2,372,753,175
Philippine peso	**771,211,848**	453,229,226
	P 1,633,340,396	P2,825,982,401

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P3,274.2 million and P75.9 million as of December 31, 2016 and 2015, respectively. Interest rates on these investments range from 3.5% to 8.0% in 2016, 4.6% to 6.1% in 2015, and 5.9% in 2014. The total interest income earned amounted to P23.6 million, P36.7 million and P44.3 million in 2016, 2015 and 2014, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value gains or losses, presented as part of Trading Gains in the statements of profit or loss, amounted to P29.1 million loss, P0.2 million loss and P17.1 million gain in 2016, 2015 and 2014, respectively. Net realized trading gains amounting to P53.9 million, P15.9 million and P2.7 million in 2016, 2015 and 2014, respectively, for held-for-trading government securities; and P0.005 million, P0.3 million and P3.6 million in 2016, 2015 and 2014, respectively, for spot transactions, are presented as part of Trading Gains in the statements of profit or loss.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2016	2015
Corporate bonds	**P 2,341,379,320**	P1,931,193,769
Government debt securities	**1,468,647,204**	1,161,644,542
Equity securities	**1,700,000**	1,700,000
	P 3,811,726,524	P3,094,538,311

As to currency, this account consists of the following:

	2016	2015
Foreign currencies	**P 2,796,476,612**	P2,990,980,345
Philippine pesos	**1,015,249,912**	103,557,966
	P 3,811,726,524	P3,094,538,311

Changes in the AFS securities are summarized below.

	Notes	2016	2015
Balance at beginning of year		**P 3,094,538,311**	P 1,715,736,721
Additions		**1,844,594,612**	2,274,907,422
Acquisition from Rural Bank of Kawit (RBK)	17.1	**6,602,227**	
Disposals		**(8,974,015,716)**	(913,710,806)
Reclassification from HTM investments	13	**6,085,652,650**	
Reclassification from Loans and Other Receivables	14	**698,161,010**	
Fair value gains (losses)		**772,317,899**	(53,101,385)
Foreign currency revaluation		**157,739,246**	(153,223,195)
Amortization of discount		**126,136,285**	223,929,554
Balance at end of year		**P 3,811,726,524**	P 3,094,538,311

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

	2016	2015	2014
Balance at beginning of year	**(P 577,298,405)**	(P 519,742,021)	(P1,043,281,000)
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	**(78,227,452)**	(53,101,385)	124,563,684
Realized fair value losses on AFS securities disposed during the year - net	**74,648,222**	6,615,377	393,988,832
Fair value loss on AFS securities reclassified to HTM investments in 2014	**-**	-	511,641,246
	(3,579,230)	(46,486,008)	1,030,193,762
Changes on unrealized fair value gains (losses) on reclassified securities during the year:			
Amortization of fair value gains (losses) on reclassified securities in 2014	**(6,457,719)**	(11,070,376)	4,986,463
Fair value gain on HTM investments reclassified to AFS securities in 2016	**850,545,351**	-	-
Realized fair value gains on HTM investments reclassified to AFS securities in 2016	**(345,229,674)**	-	-
Fair value losses on AFS securities reclassified to HTM investments in 2014	**-**	-	(511,641,246)
	498,857,958	(11,070,376)	(506,654,783)
	495,278,728	(57,556,384)	523,538,979
Balance at end of year	**(P 82,019,677)**	(P 577,298,405)	(P 519,742,021)

AFS securities earn annual interest ranging from 3.5% to 8.1%, 3.5% to 9.1% and 3.5% to 9.2% in 2016, 2015 and 2014, respectively. The total interest income earned amounted to P144.8 million, P96.5 million and P215.0 million in 2016, 2015 and 2014, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss. Net fair value gains and losses recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P270.6 million gain, P6.6 million loss and P394.0 million loss in 2016, 2015 and 2014, respectively. These are included as part of Trading Gains in the statements of profit or loss. Net realized trading gains presented as part of Trading Gains in the 2016, 2015 and 2014 statements of profit or loss, amounted to P323.6 million, P58.2 million and P16.4 million, respectively.

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

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with a face value of P55.0 million and P70.8 million as of December 31, 2016 and 2015, respectively, are deposited with the BSP (see Note 28).

13. HELD-TO-MATURITY INVESTMENTS

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments, which consist of local and foreign government securities, to AFS securities with a carrying value of P6,085.7 million (see Note 12). In accordance with PAS 39, the whole HTM category was tainted (see Notes 2.5 and 3.1). The entire reclassified HTM investments were subsequently disposed of within the same year.

The changes in the HTM investments are summarized below.

	2016	2015
Balance at beginning of year	**P 5,948,727,495**	P 5,962,970,252
Amortization of discount (premium)	**134,573,681**	(14,516,797)
Foreign currency revaluation	**2,351,474**	274,040
Reclassification (see Note 12)	**(6,085,652,650)**	-
Balance at end of year	**P -**	P 5,948,727,495

As of December 31, 2015, HTM investments, as to currency, consisted of the following:

Philippine peso	P 5,487,613,698
Foreign currencies	461,113,797
	P 5,948,727,495

The effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2016, 2015 and 2014. The total interest income earned from these investments amounted to P179.1 million, P291.6 million and P172.5 million in 2016, 2015 and 2014, respectively, and is shown as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM investments with a market value of P5,623.6 million at the date of reclassification and with annual effective interest rates of the reclassified securities ranging from 5.3% to 8.1%. The unrealized fair value loss on the reclassified securities amounting to P511.6 million is retained in other comprehensive income and will be amortized over the remaining life of the HTM investments or recognized to profit or loss upon sale, whichever comes earlier. No similar reclassification of AFS to HTM occurred in 2016 and 2015. The amortization of fair value loss amounted to P6.5 million, P11.1 million and P5.0 million in 2016, 2015 and 2014, respectively, and is presented as part of Trading Gains in the statements of profit or loss. The book value and unamortized fair value losses related to these debt securities as of December 31, 2015 amount to P5,581.6 million and P498.9 million, respectively (see Note 12).

14. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2016	2015
Receivables from customers:		
Loans and discounts	**P 47,420,972,014**	P36,954,001,403
Bills purchased	**795,456,486**	1,259,177,626
Customers' liabilities on acceptances, letters of credit and trust receipts	**3,753,026,077**	3,066,453,404
	51,969,454,577	41,279,632,433
Unearned discount	**(113,369,104)**	(96,231,198)
	51,856,085,473	41,183,401,235
Other receivables:		
SPURRA	**345,154,260**	-
Accrued interest receivable	**190,096,143**	178,793,670
Accounts receivable	**109,184,904**	87,727,360
Sales contracts receivable	**95,987,214**	91,856,163
Deficiency claims receivable	**56,313,445**	56,571,522
Unquoted debt securities	**17,958,315**	1,216,105,404
	814,694,281	1,631,054,119
	52,670,779,754	42,814,455,354
Allowance for impairment	**(1,233,668,289)**	(1,076,625,132)
	P 51,437,111,465	P41,737,830,222

In 2016, the Bank reclassified to AFS securities certain corporate debt securities previously included as part of Unquoted debt securities above amounting to P698,161,010 (see Note 12).

SPURRA are collateralized by certain treasury bills of the BSP.

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of December 31, 2016 and 2015, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. On January 13, 2015, the Supreme Court nullified the 2011 Bureau of Internal Revenue (BIR) Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount representing the 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment. As of December 31, 2016, the Bank is making an arrangement for the ultimate release of the 20% final withholding tax, plus the legal interest of 6% per annum.

As of December 31, 2016 and 2015, non-performing loans of the Bank amount to P1,322.3 million and P1,191.6 million, respectively, while restructured loans amount to P41.6 million and P81.0 million, respectively.

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

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

	2016	2015
Within one year	**P 32,346,925**	P 29,422,912
Beyond one year	**19,622,530**	11,856,720
	P 51,969,455	P 41,279,632

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

	2016	2015
Wholesale and retail trade	**P 19,506,311**	P 17,390,757
Construction	**9,782,858**	8,744,390
Manufacturing	**7,483,404**	5,011,775
Administrative and support services	**5,857,043**	4,984,934
Transportation and storage	**3,714,512**	3,218,626
Electricity, gas, steam and air-conditioning supply	**3,649,578**	675,625
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**1,371,540**	681,598
Agriculture, fishery and forestry	**429,132**	461,296
Mining and quarrying	**175,077**	110,631
	P 51,969,455	P 41,279,632

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

		2016		2015
Secured:				
Real estate mortgage	**P**	**20,230,413**	P	14,247,890
Chattel mortgage		**4,429,479**		2,335,847
Deposit hold-out		**3,303,931**		2,693,318
Others		**208**		1,259,177
Unsecured		**24,005,424**		20,743,400
	P	**51,969,455**	P	41,279,632

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

		2016		2015
Balance at beginning of year	**P**	**1,076,625,132**	P	906,219,774
Impairment losses for the year		**157,043,157**		170,405,358
Balance at end of year	**P**	**1,233,668,289**	P	1,076,625,132

Of the total loans and discounts of the Bank as of December 31, 2016 and 2015, 75.38% and 99.8%, respectively, are subject to periodic interest repricing.

The annual effective interest rates of loans and discounts range from 1.3% to 30.0% in 2016, 1.7% to 26.0% in 2015 and 1.3% to 22.0% in 2014, while the annual effective interest rates of interest-bearing other receivables range from 3% to 4% in 2016, 4.0% to 16% in 2015, and 4.0% to 10.4% in 2014. The total interest income earned from loans and discounts amounted to P2,570.2 million, P2,457.3 million and P2,165.4 million in 2016, 2015 and 2014, respectively, while total interest income earned from interest-bearing other receivables amounted to P182.8 million, P188.8 million and P201.5 million in 2016, 2015 and 2014, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amounted to P1.0 million as of December 31, 2015 (nil as of December 31, 2016) (see Note 19).

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
December 31, 2016						
Cost	P 89,848,156	P 118,429,528	P 412,938,957	P 148,470,474	P 528,612,606	P 1,298,299,721
Accumulated depreciation and amortization	-	(48,493,151)	(266,048,782)	(83,554,014)	(364,208,136)	(762,304,083)
Net carrying amount	**P 89,848,156**	**P 69,936,377**	**P 146,890,175**	**P 64,916,460**	**P 164,404,470**	**P 535,995,638**
December 31, 2015						
Cost	P 84,327,556	P 109,343,864	P 370,921,928	P 130,418,587	P 486,983,266	P 1,181,995,201
Accumulated depreciation and amortization	-	(36,053,768)	(218,191,093)	(71,265,077)	(293,850,541)	(619,360,479)
Net carrying amount	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P 193,132,725	P 562,634,722
January 1, 2015						
Cost	P 84,327,556	P 110,257,855	P 299,261,604	P 120,355,469	P 409,639,438	P 1,023,841,922
Accumulated depreciation and amortization	-	(32,760,656)	(179,720,221)	(59,527,339)	(236,067,230)	(508,075,446)
Net carrying amount	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P 193,132,725	P 562,634,722
Additions	-	-	53,900,234	39,052,916	50,030,152	142,983,302
Acquisition from RBK (see Note 17.1)	5,520,600	1	95,611	2	1	5,616,215
Disposals	-	-	(13,761,821)	(8,181,975)	(11,728,207)	(33,672,003)
Depreciation and amortization charges for the year	-	(3,353,720)	(46,074,684)	(25,107,993)	(67,030,201)	(141,566,598)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 89,848,156**	**P 69,936,377**	**P 146,890,175**	**P 64,916,460**	**P164,404,470**	**P 535,995,638**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476
Additions	-	492,456	78,517,090	22,797,614	76,248,211	178,055,371
Disposals	-	(1,118,916)	(3,499,043)	(1,619,003)	-	(6,236,962)
Reclassification	-	(195,000)	-	-	195,000	-
Depreciation and amortization charges for the year	-	(3,385,643)	(41,828,595)	(22,853,231)	(56,882,694)	(124,950,163)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P193,132,725	P 562,634,722

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with this requirement.

As of December 31, 2016 and 2015, the Bank's fully depreciated bank premises, furniture, fixtures and equipment still in use in operations amounted to P94.0 million and P130.9 million, respectively.

16. INVESTMENT PROPERTIES

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

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2016 and 2015 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2016			
Cost	P 390,539,220	P 153,159,794	P 543,699,014
Accumulated depreciation	-	(66,564,578)	(66,564,578)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	**P 363,987,359**	**P 84,402,222**	**P 448,389,581**
December 31, 2015			
Cost	P 620,444,728	P 138,104,027	P 758,548,755
Accumulated depreciation	-	(54,033,276)	(54,033,276)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 593,892,867	P 81,877,757	P 675,770,624
January 1, 2015			
Cost	P 651,957,954	P 127,493,252	P 779,451,206
Accumulated depreciation	-	(44,970,629)	(44,970,629)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 625,406,093	P 80,329,629	P 705,735,722

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2016 and 2015 is shown below and in the succeeding page.

	Land	Buildings and Improvements	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 593,892,867	P 81,877,757	P 675,770,624
Additions	150,318,826	25,368,089	175,686,915
Acquisition of RBK – net (see Note 17.1)	10,183,407	5,656,990	15,840,397
Disposals	(390,407,741)	(16,994,890)	(407,402,631)
Depreciation for the year	-	(11,505,724)	(11,505,724)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 363,987,359**	**P 84,402,222**	**P 448,389,581**

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

The total estimated fair values of the Bank's investment properties amounted to P617.3 million and P803.3 million as of December 31, 2016 and 2015, respectively (see Note 7.4).

In 2016, 2015 and 2014, gains on sale of investment properties amounted to P14.9 million, P15.0 million and P27.8 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

17. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	**2016**	2015
Other investments	17.1	**P 669,579,319**	P 602,077,114
Deferred tax assets – net	25	**413,836,354**	343,049,563
Branch licenses	17.2	**249,987,660**	248,575,050
Goodwill	17.3	**109,392,041**	49,878,393
Due from head office or branches		**74,862,587**	95,550,242
Foreign currency notes and coins on hand	9	**59,387,782**	63,871,020
Computer software – net		**51,792,167**	56,151,749
Prepaid expenses		**35,237,702**	53,540,346
Security deposits		**29,660,825**	28,018,409
Sundry debits		**23,250,933**	91,598,123
Deferred charges	17.4	**13,383,687**	13,383,687
Stationery and supplies		**13,063,971**	12,837,539
Retirement benefit asset	23.2	**8,550,906**	
Miscellaneous	17.4	**63,599,920**	65,302,793
		1,815,585,854	1,723,834,028
Allowance for impairment		**(15,038,424)**	(15,038,424)
		P 1,800,547,430	P1,708,795,604

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

		2016		2015
Balance at beginning of year	**P**	**15,038,424**	P	13,393,424
Impairment loss for the year		**-**		1,645,000
Balance at end of year	**P**	**15,038,424**	P	15,038,424

17.1 Other Investments

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

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI) with an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the escrow agent. In 2016, the agreed purchase price was increased by P82.5 million, which remained unpaid and recognized as part of Account payable under Accrued Expenses and Other Liabilities in the 2016 statement of financial position (see Note 20). As of December 31, 2016 and 2015, the Bank has already released from the escrow fund the amount of P252.9 million and P105.1 million, respectively, as payment to the ISBI shares. As of December 31, 2016, the acquisition is still subject to BSP approval. Pending such approval, the total purchase price of P600.7 million is initially presented as part of Other investments under Other Resources.

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

In July 2015, the Bank entered into a Sale and Purchase Agreement with Bataan Savings and Loan Bank, Inc. (BLSB), whereby the Bank shall acquire all properties, assets and goodwill of BLSB and assume the payment of all its obligation. The agreed purchase price amounted to P68.8 million and has been fully paid by the Bank in 2015. As of December 31, 2016, the transaction is still subject to BSP approval. Pending such approval, the total purchase price of P68.8 million is initially presented as part of Other investments under Other Resources.

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

In September 2014, as part of its expansion strategy, the Bank's BOD approved the acquisition of all properties and assets of RBK and assumption of all its obligation with a purchase price of P15.0 million. As of December 31, 2015, the approval of the BSP has not yet been obtained; hence, the acquisition price is still booked as part of Other investments under Other Resources. Thereafter, on February 1, 2016, the BSP approved such acquisition. Accordingly, the Bank recognized the following assets and liabilities of RBK at their fair values (amounts in millions), resulting to goodwill of P59.5 million.

Cash and cash equivalents	P	29,323
Trading and investment securities		6,602
Loans and other receivables		94,332
Bank premises, furniture, fixtures and equipment		5,616
Investment properties		15,840
Other resources		3,025
Total assets *(balance carried forward)*	P	154,738

Total assets *(balance brought forward)*	P 154,738
Deposit liabilities	155,913
Other liabilities	43,339
Total liabilities	199,252
Net liability position	44,514
Cash consideration	15,000
Goodwill (see Note 17.3)	P 59,514

17.2 Branch Licenses

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

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

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

17.3 Goodwill

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

Following BSP's approval of the Bank's acquisition of RBK, the Bank has recognized a goodwill amounting to P59.5 million (see Note 17.1).

17.4 Others

Deferred charges amounting to P13.4 million as of December 31, 2016 and 2015 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) amounted to P6.8 million and P4.8 million as of December 31, 2016 and 2015, respectively. Additions to other properties held for sale in 2016 and 2015, as a result of foreclosure, amounted to P16.2 million and P0.5 million, respectively. In 2016 and 2015, certain properties were sold with book value of P14.7 million and P0.5 million, respectively. Gain or loss on sale from the disposal amounted to P1.7 million and P0.2 million in 2016 and 2015, respectively, and is presented as part of Gain on sale of properties under Miscellaneous Income account in the statements of profit or loss (see Note 22.1).

18. DEPOSIT LIABILITIES

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

	2016	2015
Within one year	**P 57,569,682,714**	P 54,225,906,880
Beyond one year	**1,338,078,026**	790,312,630
	P 58,907,760,740	P 55,016,219,510

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

	2016	2015
Philippine peso	**P 54,102,014,779**	P 48,557,474,402
Foreign currencies	**4,805,745,961**	6,458,745,108
	P 58,907,760,740	P 55,016,219,510

Annual interest rates on deposit liabilities range from 0.3% to 2.9% in 2016, 0.3% to 2.8% in 2015 and 0.3% to 2.6% in 2014.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2016 and 2015.

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.0%. The Bank is in compliance with these regulations. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. Available reserves as of December 31, 2016 and 2015 amount to P4,265.7 million and P3,802.6 million, respectively (see Note 9).

19. BILLS PAYABLE

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

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 4.0% to 5.4% and 2.3% to 5.4% in 2015 and 2014, respectively. The total interest expense incurred amounted to P0.01 million, P3.3 million and P2.2 million in 2016, 2015 and 2014, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss. As of December 31, 2015, bills payable are collateralized by certain loans from customers and HTM securities (see Notes 13 and 14).

20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2016	2015
Bills purchased		**P 784,889,441**	P 1,248,610,581
Accounts payable	17.1(a)	**384,660,807**	334,167,460
Accrued expenses	31.1(a)	**162,144,193**	142,337,555
Manager's checks		**138,410,956**	113,701,850
Income tax payable		**126,568,663**	66,868,068
Dividends payable	21.2	**79,200,000**	-
Outstanding acceptances		**41,652,264**	41,982,694
Withholding taxes payable		**32,984,845**	32,617,776
Post-employment benefit obligation	23.2	**-**	23,388,433
Derivative liabilities	7.2	**-**	1,886,043
Others		**37,240,170**	89,872,899
		P 1,787,751,339	P 2,095,433,359

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

Accounts payable includes the increase in the purchase price in relation to the acquisition of ISBI amounting to P82.5 million (see Note 17.1). Also included in this account are amounts which the Bank owes to its suppliers and advance payments received from its customers.

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

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

21. EQUITY

21.1 Capital Stock

Capital stock as of December 31 consists of:

	Number of Shares		Amount	
	2016	2015	**2016**	2015
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued, fully paid and outstanding	**62,000,000**	62,000,000	**P 620,000,000**	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued, fully paid and outstanding				
Balance at beginning of year	**536,458,437**	429,166,750	**P 5,364,584,370**	P 4,291,667,500
Stock dividends (see Note 21.2)	**-**	107,291,687	**-**	1,072,916,870
Balance at end of year	**536,458,437**	536,458,437	**P 5,364,584,370**	P 5,364,584,370

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8.0% per annum.

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

On February 18, 2013, the Bank offered its 101,333,400 unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Notes 1 and 21.4).

As of December 31, 2016 and 2015, the Bank has 65 and 64 holders, respectively, of its equity securities listed in the PSE and its share price closed at P14.36 and P16.98, respectively. The Bank has 536,458,423 million common shares traded in the PSE both as of December 31, 2016 and 2015.

21.2 Dividends

On December 29, 2016, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P79.2 million. As of December 31, 2016, the cash dividends remain unpaid and presented as Dividends payable under Accrued Expenses and Other Liabilities account in the 2016 statement of financial position (see Note 20).

On August 19, 2015, the BOD approved the declaration stock dividends totaling 107.3 million common shares amounting to P1.1 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to P62.3 million for all issued and outstanding preferred shares and stock dividends totaling 85.8 million common shares amounting to P858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock, and the BSP, on May 30, 2014 and June 26, 2014, respectively.

21.3 Appropriated Surplus

In 2016, 2015 and 2014, additional appropriations of surplus amounting to P1.2 million, P1.4 million and P1.6 million, respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 28).

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2016 and 2015, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

21.4 Paid-in Capital from IPO

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

21.5 Revaluation Reserves

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

22. MISCELLANEOUS INCOME AND EXPENSES

22.1 Miscellaneous Income

This account is composed of the following:

	Notes	**2016**	2015	2014
Gain on sale of properties – net	16, 17.4	**P 14,957,797**	P 15,028,632	P 27,801,013
Trust fees	28	**11,901,649**	13,874,866	16,476,979
Gain (loss) on foreclosure - net		**-**	(2,480,845)	87,676,870
Others		**57,874,929**	47,008,310	12,198,935
		P 84,734,375	P 73,430,963	P144,153,797

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

22.2 Miscellaneous Expense

This account is composed of the following:

	2016	2015	2014
Transportation and travel	**P 96,504,349**	P 90,613,557	P 83,152,129
Fines, penalties and other charges	**39,600,153**	2,407,469	-
Communication	**36,024,924**	28,225,214	24,038,942
Banking fees	**22,528,788**	26,472,435	18,625,488
Amortization of software licences	**19,386,217**	18,184,042	13,847,731
Office supplies	**13,374,619**	13,647,334	14,021,252
Litigation on asset acquired	**12,053,842**	35,032,847	24,195,212
Information technology	**10,752,537**	9,373,418	2,052,533
Advertising and publicity	**7,494,481**	9,824,351	9,727,883
Freight	**3,226,217**	3,697,495	2,277,301
Membership dues	**2,740,285**	2,273,029	1,719,026
Donations and contributions	**2,050,658**	161,806	6,307,236
Others	**30,236,384**	26,603,506	24,848,299
	P 295,973,454	P266,516,503	P224,813,032

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

23. EMPLOYEE BENEFITS

23.1 Salaries and Other Employee Benefits Expense

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

	Note	**2016**	2015	2014
Salaries and wages		**P383,868,028**	P324,688,012	P278,087,924
Post-employment defined benefit plan	23.2	**27,422,063**	23,344,826	22,450,730
Bonuses		**23,545,447**	98,262,420	96,991,056
Social security costs		**22,051,522**	18,922,253	17,816,211
Short-term medical benefits		**518,914**	223,416	60,670
Other short-term benefits		**178,117,917**	78,005,801	64,145,746
		P635,523,891	P543,446,728	P479,552,337

23.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2016 and 2015.

The amounts of post-employment defined benefit obligation asset (obligation) (see Notes 17 and 20) recognized in the statements of financial position are determined as follows:

	2016	2015
Present value of the DBO	**(P 172,249,214)**	(P 172,423,348)
Fair value of plan assets	**181,260,159**	149,034,915
Effect of the asset ceiling	**(460,039)**	-
	P 8,550,906	(P 23,388,433)

The movements in the present value of the post-employment DBO are as follows:

	2016	2015
Balance at beginning of year	**P 172,423,348**	P 144,748,892
Current service cost	**27,422,063**	23,344,826
Interest expense	**8,431,502**	6,499,225
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
demographic assumptions	**(43,677,175)**	-
financial assumptions	**10,267,235**	5,201,633
experience adjustments	**3,502,031**	(1,639,231)
Benefits paid	**(6,119,790)**	(5,731,997)
Balance at end of year	**P 172,249,214**	P 172,423,348

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

	2016	2015
Balance at beginning of year	**P 149,034,915**	P 104,938,653
Contributions to the plan	**37,133,819**	37,133,819
Interest income	**8,046,100**	5,416,716
Return on plan assets (excluding amounts included in net interest)	**(6,834,885)**	7,277,724
Benefits paid	**(6,119,790)**	(5,731,997)
Balance at end of year	**P 181,260,159**	P 149,034,915

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

	2016	2015
Cash and cash equivalents	**P 57,196,247**	P 120,244,871
Government bonds	**100,147,102**	17,767,686
Corporate bonds	**15,692,733**	9,970,695
Equity instruments	**7,840,560**	-
Accrued interest	**383,517**	1,051,663
	P 181,260,159	P 149,034,915

The fair values of the above equity instruments, government and other bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P1.2 million and P12.7 million in 2016 and 2015, respectively.

Plan assets comprise certain financial instruments of the Bank (see Note 24.3).

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

	2016	2015	2014
Reported in profit or loss:			
Current service cost	**P 27,422,063**	P 23,344,826	P 22,450,730
Net interest expense	**385,402**	1,082,509	1,508,448
	P 27,807,465	P 24,427,335	P 23,959,178
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
demographic assumptions	**P 43,677,175**	P -	P -
financial assumptions	**(10,267,235)**	(5,201,633)	(4,814,608)
experience adjustments	**(3,502,031)**	1,639,231	4,547,415
Return on plan assets (excluding amounts included in net interest expense)	**(6,834,885)**	7,277,724	(1,920,720)
Effect of the asset ceiling	**(460,039)**	-	-
	P 22,612,985	P 3,715,322	(P 2,187,913)

Current service cost is presented as part Salaries and Other Employee Benefits (see Note 23.1) under the caption Other Expenses while net interest expense is presented as Interest Expense – Others in the statements of profit or loss.

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

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

	2016	2015	2014
Discount rates	**5.38%**	4.9%	4.5%
Expected rate of salary increases	**8.0%**	6.0%	5.0%
Employee turnover	**9.7% - 20.9%**	0.0% - 7.5%	0.0% - 7.5%

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

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2016 and 2015:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2016			
Discount rate	**+5.7%/-5.1%**	**(P 9,737,183)**	**P 8,715,688**
Salary rate	**+4.7%/-4.3%**	**8,040,911**	**(7,375,233)**
Turnover rate	**+52.0%**	**(89,549,497)**	**-**
December 31, 2015			
Discount rate	+7.0%/-6.3%	(P 12,132,902)	P 10,778,044
Salary rate	+6.0%/-5.5%	10,371,902	(9,442,839)
Turnover rate	+16.3%	(28,089,425)	-

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

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

(ii) Asset-liability Matching Strategies

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

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

As of December 31, 2016 and 2015, the plan has investment in cash and cash equivalents and debt securities. The Bank believes that cash and cash equivalents and debt securities offer the best returns over the long term with an acceptable level of risk.

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

(iii) Funding Arrangements and Expected Contributions

The plan currently is in excess of fund amounting by P8.6 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 28 years' time when a significant number of employees is expected to retire.

The Bank expects to pay P37.1 million as contribution to retirement benefit plan in 2017.

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

	2016	2015
Within one year	**P 39,507,044**	P 20,948,575
More than one year to five years	**47,579,612**	36,919,502
More than five years to ten years	**84,392,549**	60,175,169
	P 171,479,205	P 118,043,246

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.4 years.

24. RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI, retirement fund and others as described below and in the succeeding pages.

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

Related Party Category	Notes	**2016 Amount of Transaction**	**2016 Outstanding Balance**	2015 Amount of Transaction	2015 Outstanding Balance
DOSRI					
Deposit liabilities	24.1	**P 6,891,205,514**	**P 6,471,966,695**	P6,783,959,179	P6,579,213,030
Loans	24.2	**1,217,879,975**	**1,212,117,019**	1,278,906,663	1,257,883,137
Interest income on loans	24.2	**44,013,008**	**2,832,634**	48,498,573	3,406,592
Key management compensation	24.4	**101,934,057**	**-**	83,029,008	-
Retirement Fund					
Contribution	24.3	**37,133,819**	**-**	37,133,819	-
Plan assets	24.3	**83,356**	**42,457,190**	37,164	1,997,083

24.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2016 and 2015.

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

24.2 DOSRI Loans

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

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	2016	2015
Total outstanding DOSRI loans	**P 1,212,117,019**	P 1,257,883,137
Unsecured DOSRI loans	**9,856,451**	11,312,547
Past due DOSRI loans	-	3,819,459
% to total loan portfolio	**2.3%**	3.0%
% of unsecured DOSRI loans to total DOSRI loans	**0.8%**	0.9%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.3%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

As of December 31, 2016 and 2015, the Bank has an approved line of credit to certain related parties totaling P23.0 million and P24.3 million, respectively, and all were used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

24.3 Transactions with Retirement Fund

The Bank's transactions with its retirement fund as of December 31, 2016 and 2015 relate to the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23.2.

The following retirement plan assets are also placed in the Bank comprising of cash in bank, short-term placements, and equity shares of the Bank:

	2016	2015
Cash and cash equivalents	**P 34,606,247**	P 1,994,871
Equity instruments	**7,840,560**	-
Accrued interest	**10,383**	2,212
	P 42,457,190	P 1,997,083

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

24.4 Key Management Personnel Compensation

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

	2016	2015	2014
Salaries and wages	**P 72,088,807**	P 58,902,581	P 55,286,737
Bonuses	**17,987,189**	14,890,912	13,771,434
Post-employment defined benefit	**9,024,121**	7,004,439	8,701,539
Social security costs	**1,508,717**	1,178,696	1,168,208
Other short-term benefits	**1,325,223**	1,052,380	683,000
	P101,934,057	P 83,029,008	P 79,610,918

25. TAXES

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

	2016	2015	2014
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	**P183,050,792**	P165,170,994	P176,802,660
FCDU	**669,447**	2,323,577	410,982
Final tax at 20%, 10% and 7.5%	**99,688,898**	93,574,103	100,999,011
	283,409,137	261,068,674	278,212,653
Deferred tax income relating to origination and reversal of temporary differences	**(77,570,687)**	(57,771,400)	(35,773,420)
	P205,838,450	P203,297,274	P242,439,233

	2016	2015	2014
Reported in other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 6,783,896**	P 1,114,597	(P 656,374)

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

	2016	2015	2014
Tax on pretax profit at 30%	**P262,338,797**	P211,631,783	P233,593,301
Adjustment for income subjected to lower tax rates	**(39,204,162)**	(93,128,766)	(78,188,870)
Tax effects of:			
Non-deductible expenses	**158,214,458**	89,587,230	90,655,288
Non-taxable income	**(175,510,643)**	(4,792,973)	(3,620,486)
Tax expense	**P205,838,450**	P203,297,274	P242,439,233

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

The net deferred tax assets as of December 31, 2016 and 2015 (included as part of Other Resources account – see Note 17) relate to the following:

	2016	2015
Deferred tax assets:		
Allowance for impairment	**P368,707,306**	P324,923,516
Accumulated depreciation of investment properties	**21,051,739**	17,842,060
Accrued bonus and leave conversion	**18,771,937**	9,697,390
Unamortized past service cost	**11,124,277**	9,990,473
Deferred tax liabilities:		
Gain on initial exchange of investment properties	**(3,253,633)**	(26,420,406)
Post-employment benefit obligation	**(2,565,272)**	7,016,530
Net Deferred Tax Assets	**P413,836,354**	P343,049,563

Movements in net deferred tax assets for the years ended December 31 follow:

	Statements of Profit or Loss			**Statements of Comprehensive Income**		
	2016	2015	2014	**2016**	2015	2014
Allowance for impairment	**(P 43,783,790)**	(P 51,615,107)	(P 52,940,136)	**P -**	P -	P -
Gain on initial exchange of investment properties	**(23,166,773)**	(6,006,466)	17,477,929	**-**	-	-
Accrued bonus and leave conversion	**(9,074,547)**	1,236,601	(721,539)	**-**	-	-
Accumulated depreciation of investment properties	**(3,209,679)**	(2,550,046)	(211,840)	**-**	-	-
Post-employment benefit obligation	**2,797,906**	3,811,945	2,089,701	**6,783,896**	1,114,597	(656,374)
Unamortized past service cost	**(1,133,804)**	(2,648,327)	(1,467,535)	**-**	-	-
Deferred Tax Expense (Income)	**(P 77,570,687)**	(P 57,771,400)	(P 35,773,420)	**P 6,783,896**	P 1,114,597	(P 656,374)

As of December 31, 2016 and 2015, the Bank has unrecognized deferred tax assets amounting to P10.5 million which pertain to certain allowance for impairment absorbed from KRBI upon merger in 2010.

For the years ended December 31, 2016 and 2015, the Bank opted to claim itemized deductions.

26. EVENT AFTER THE END OF REPORTING PERIOD

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

27. COMMITMENTS AND CONTINGENT LIABILITIES

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

(a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. The rent expense amounting to P130.8 million, P115.1 million and P95.5 million in 2016, 2015 and 2014, respectively, are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2016, 2015 and 2014, future minimum rental payments required by the lease contracts are as follows:

	2016	2015	2014
Within one year	**P 108,367,205**	P 107,784,137	P 83,544,132
After one year but not more than five years	**210,308,732**	244,536,398	219,653,731
More than five years	**7,452,777**	10,418,892	22,230,832
	P 326,128,714	P 362,739,427	P 325,428,695

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

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

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

	2016	2015
Investment management accounts	**P 1,938,042,428**	P 4,059,027,956
Outstanding letters of credit	**807,107,561**	1,193,799,732
Trust and other fiduciary accounts	**796,018,046**	506,103,798
Outward bills for collection	**53,479,103**	8,423,324
Unit investment trust fund	**34,259,888**	31,812,677
Late payment/deposits received	**7,615,931**	9,736,574
Items held for safekeeping	**66,919**	68,979
Items held as collateral	**8,720**	9,416
Other contingent accounts	**543,038,687**	529,127,518

As of December 31, 2016 and 2015, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

28. TRUST OPERATIONS

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

	2016	2015
Loans and other receivables	**P 167,713,458**	P 2,390,413,668
Due from banks	**1,073,711,290**	982,964,468
Investment securities	**1,444,251,174**	981,566,295
Due from BSP	**81,000,000**	242,000,000
	P 2,766,675,922	P 4,596,944,431

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

(a) Government bonds owned by the Bank with face value of P55.0 million and P70.75 million as of December 31, 2016 and 2015, respectively, are deposited with the BSP (see Note 12); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. Additional reserve for trust functions amounted to P1.2 million, P1.4 million and P1.6 million in 2016, 2015 and 2014, respectively, and are presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P11.9 million, P13.9 million and P16.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, in the statements of profit or loss (see Note 22.1).

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2016	2015	2014
Return on average capital			
Net profit / Average total capital accounts	**7.4%**	6.1%	7.1%
Return on average resources			
Net profit / Average total resources	**1.0%**	0.8%	1.0%
Net interest margin			
Net interest income / Average interest earning resources	**3.9%**	4.1%	4.5%
Capital to risk assets ratio			
Total capital / Risk resources	**16.7%**	19.1%	20.8%
Liquidity ratio			
Current assets / Current liabilities	**1.5**	1.0	1.3
Debt-to-equity ratio			
Liabilities / Equity	**6.3**	6.7	6.2
Asset-to-equity ratio			
Asset / Equity	**7.3**	7.7	7.2
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**2.2**	1.9	2.3

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2016, all of the Bank's liabilities are unsecured, while as of December 31, 2015, bills payable are the only secured liabilities (see Note 19).

30. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2016	2015	2014
Net profit	**P 668,624,205**	P 502,142,004	P 536,205,104
Dividends on preferred shares	**(79,200,000)**	-	(62,325,000)
Net profit attributable to common shareholders	**589,424,205**	502,142,004	473,880,104
Divided by the weighted average number of outstanding common shares	**536,458,437**	536,458,437	536,458,437
Basic earnings per share	**P 1.10**	P 0.94	P 0.88

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

As of December 31, 2016, 2015 and 2014, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

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

31.1 Requirements Under RR No. 15-2010

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

(a) Gross Receipts Tax

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

In 2016, the Bank reported total GRT amounting to P182,608,311 shown under Taxes and Licenses account in the 2016 statement of profit or loss [see Note 31.1(c)]. GRT paid during the year amounted to P167,875,691, exclusive of December 2015 GRT paid during 2016. The total GRT payable as of December 31, 2016 amounted to P14,732,620, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2016 statement of financial position (see Note 20).

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

(b) *Documentary Stamp Tax*

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2016, DST remittance thru e-DST amounted to P423,114,453, while DST on deposits for remittance amounts to P200,652,942. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2016 amounting to P222,461,511 were charged to borrowers and these were properly remitted by the Bank.

DST accruing to the Bank amounted to P150,979,020 and is presented as part of the Taxes and Licenses account in the 2016 statement of profit or loss [see Note 31.1(c)].

(c) *Taxes and Licenses*

The details of Taxes and Licenses account for the year ended December 31, 2016 follow:

	Note		
Gross receipts tax	31.1(a)	P	182,608,311
DST	31.1(b)		150,979,020
Business tax			14,532,248
Real property tax			1,041,756
Miscellaneous			4,943,373
		P	354,104,708

Taxes and licenses allocated to tax exempt income and FCDU totaling P29,163,558 were excluded from the itemized deductions for purposes of income tax computation (see Note 25).

(d) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2016 are shown below.

Final	P	126,740,947
Compensation and benefits		74,414,957
Expanded		17,808,696
	P	218,964,600

(e) *Deficiency Tax Assessments and Tax Cases*

In 2016, the Bank paid final deficiency taxes on DST, withholding taxes and gross receipts tax for taxable years 2013 and 2014 totalling P39,034,054.

Other than the foregoing, as of December 31, 2016, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable years other than the final deficiency taxes paid.

(f) *Other Required Tax Information*

The Bank did not have any transactions in 2016, which is subject to excise tax, customs duties and tariff fees.

31.2 Requirements Under RR No. 19-2011

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

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

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2016 statement of profit or loss, which are based on PFRS.

(a) *Taxable Revenues*

The Bank's taxable revenues for the year ended December 31, 2016 at the regular tax rate pertain to interest income amounting to P2,638,171,685.

(b) *Deductible Costs of Services*

Deductible costs of services for the year ended December 31, 2016 at the regular tax rate comprise the following:

Salaries and wages	P 560,869,608
Interest expense	519,417,517
Insurance	99,511,234
Supervision/examination fees	17,637,315
	P 1,197,435,674

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2016 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P	149,054,487
Gain on sale of properties		92,180,278
Others		65,624,661
	P	**306,859,426**

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2016 subject to regular tax rate follow:

Taxes and licenses	P	324,941,150
Depreciation		141,566,598
Rental		129,018,196
Management and other professional fees		115,048,373
Janitorial and messengerial		93,757,092
Communication, light and water		62,186,857
Transportation and travel		50,924,943
Fuel and oil		37,631,446
Representation		29,311,957
Insurance		28,128,149
Amortization of computer software		17,789,596
Realized net trading loss		13,835,440
Office supplies		12,273,104
Litigation		12,053,842
Information technology		9,866,974
Repairs and maintenance		8,997,853
Advertising and promotion		6,877,246
Charitable contribution		1,881,769
Others		41,335,546
	P	**1,137,426,131**