Report of Independent Auditors

The Board of Directors
RCBC Savings Bank, Inc.
(A Wholly Owned Subsidiary of
Rizal Commercial Banking Corporation)
RCBC Savings Bank Corporate Center
26th and 25th Streets, Bonifacio Global City
Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of RCBC Savings Bank, Inc. (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 the years then ended, 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 the years then ended 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2016, the Bank changed its accounting policy in accounting for its investment in subsidiaries from the cost method to the equity method in its financial statements in accordance with PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. In addition, the Bangko Sentral ng Pilipinas, through its Circular No. 915, made it a mandatory requirement for all banks and non-bank financial institutions to measure their equity investments using the equity method in their separate financial statements. Accordingly, the Bank has restated its comparative financial statements as of and for the year ended December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the retrospective effects of the use of the equity method in measuring its investments in subsidiaries. Our opinion is not modified with respect to this matter.

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.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements takes as a whole. As discussed in Note 22 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) 15-2010 and RR-19-2011 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 and RR 19-2011 require the information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is also not a required disclosure under the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

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SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 20, 2017

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(With Corresponding Figures as of January 1, 2015)
(Amounts in Philippine Pesos)

	Notes	December 31, 2016	December 31, 2015 (As Restated - See Note 2)	January 31, 2015 (As Restated - See Note 2)
R E S O U R C E S				
CASH AND OTHER CASH ITEMS	7	**P 4,146,105,882**	P 3,943,015,524	P 3,539,093,668
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**14,712,658,644**	7,523,946,480	7,809,123,402
DUE FROM OTHER BANKS	7	**1,994,411,693**	1,925,342,944	1,966,629,450
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	7	**2,958,465,090**	-	-
TRADING AND INVESTMENT SECURITIES - Net	8	**6,881,206,226**	10,215,343,472	9,176,826,258
LOANS AND RECEIVABLES - Net	9	**72,512,195,758**	63,667,546,991	53,162,974,324
INVESTMENTS IN SUBSIDIARIES - Net	10	**155,140,355**	220,599,608	200,339,212
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**1,114,831,988**	1,156,314,198	1,231,672,784
INVESTMENT PROPERTIES - Net	12	**1,124,068,737**	1,194,289,317	2,602,772,431
ASSETS HELD-FOR-SALE AND DISPOSAL GROUP - Net	13	**1,875,562,556**	1,621,765,846	443,725,943
DEFERRED TAX ASSETS	22	**744,234,865**	652,466,729	-
OTHER RESOURCES - Net	13	**701,835,133**	608,168,061	649,977,025
TOTAL RESOURCES		**P 108,920,716,927**	P 92,728,799,170	P 80,783,134,497
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	14	**P 94,760,715,397**	P 79,974,806,198	P 69,573,280,873
MANAGER'S CHECK PAYABLE	16	**521,972,467**	489,579,107	375,037,418
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	17	**1,039,359,692**	928,725,518	1,037,300,312
OTHER LIABILITIES	18	**2,054,022,379**	1,826,186,809	1,519,894,986
Total Liabilities		**98,376,069,935**	83,219,297,632	72,505,513,589
EQUITY				
Capital stock	20	**3,087,216,300**	3,087,216,300	3,087,216,300
Additional paid-in capital	20	**102,783,700**	102,783,700	102,783,700
Revaluation reserves	20	**(104,080,383)**	(134,085,227)	(99,730,023)
Reserve for trust business	24	**36,788,410**	31,614,365	26,179,870
Surplus	20	**7,421,938,965**	6,421,972,400	5,161,171,061
Total Equity		**10,544,646,992**	9,509,501,538	8,277,620,908
TOTAL LIABILITIES AND EQUITY		**P 108,920,716,927**	P 92,728,799,170	P 80,783,134,497

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015 (As Restated - See Note 2)
INTEREST INCOME			
Loans and receivables	9	**P 5,754,894,522**	P 5,002,431,044
Trading and investment securities	8	**327,350,276**	401,625,020
Loans and receivables arising from reverse repurchase agreement	7	**16,094,444**	-
Due from BSP and other banks	7	**7,958,684**	5,689,337
		6,106,297,926	5,409,745,401
INTEREST EXPENSE			
Deposit liabilities	14	**1,248,052,887**	990,179,237
Bills payable	15	**20,947,290**	3,234,674
		1,269,000,177	993,413,911
NET INTEREST INCOME		**4,837,297,749**	4,416,331,490
IMPAIRMENT LOSSES	9, 12	**807,718,818**	1,142,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**4,029,578,931**	3,274,331,490
OTHER OPERATING INCOME			
Service charges, commissions and fees	2	**944,479,479**	965,350,869
Gain on sale of assets	11, 12, 13	**120,618,150**	154,185,251
Share in net income of subsidiaries	10	**7,326,646**	49,225,733
Other income	19	**69,886,584**	83,582,244
		1,142,310,859	1,252,344,097
OTHER OPERATING EXPENSES			
Salaries and employee benefits	21	**1,181,837,270**	1,043,279,251
Occupancy	26	**497,059,606**	483,739,235
Depreciation and amortization	11, 12	**424,043,498**	381,629,477
Taxes and licenses	12	**445,075,912**	375,690,841
Insurance		**334,072,834**	274,075,858
Litigation		**199,276,558**	157,719,674
Loss on sale of securities		**178,251,640**	5,593,174
Miscellaneous	19	**877,631,064**	1,034,486,191
		4,137,248,382	3,756,213,701
PROFIT BEFORE TAX		**1,034,641,408**	770,461,886
TAX EXPENSE (INCOME)	22	**29,500,798**	(495,773,948)
NET PROFIT		**P 1,005,140,610**	P 1,266,235,834

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Note	2016	2015 (As Restated - See Note 2)
NET PROFIT		**P 1,005,140,610**	P 1,266,235,834
OTHER COMPREHENSIVE INCOME (LOSS)			
Remeasurements of post-employment defined benefit plan	21	**30,004,844**	(34,355,204)
TOTAL COMPREHENSIVE INCOME		**P 1,035,145,454**	P 1,231,880,630

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Reserve for Trust Business	Surplus	Total
Balance at January 1, 2016							
As previously reported		P 3,087,216,300	P 102,783,700	(P 134,085,227)	P 31,614,365	P 6,584,316,411	P 9,671,845,549
Effect of adoption of PAS 27 (Amendments)	2	-	-	-	-	(162,344,011)	(162,344,011)
As restated		3,087,216,300	102,783,700	(134,085,227)	31,614,365	6,421,972,400	9,509,501,538
Transfer to reserve for trust business	24	-	-	-	5,174,045	(5,174,045)	-
Total comprehensive income for the year	21	-	-	30,004,844	-	1,005,140,610	1,035,145,454
Balance at December 31, 2016	20	**P 3,087,216,300**	**P 102,783,700**	**(P 104,080,383)**	**P 36,788,410**	**P 7,421,938,965**	**P 10,544,646,992**
Balance at January 1, 2015							
As previously presented		P 3,087,216,300	P 102,783,700	(P 99,730,023)	P 26,179,870	P 5,340,261,829	P 8,456,711,676
Effect of adoption of PAS 27 (Amendments)	2	-	-	-	-	(179,090,768)	(179,090,768)
As restated		3,087,216,300	102,783,700	(99,730,023)	26,179,870	5,161,171,061	8,277,620,908
Transfer to reserve for trust business	24	-	-	-	5,434,495	(5,434,495)	-
Total comprehensive income (loss) for the year	21	-	-	(34,355,204)	-	1,266,235,834	1,231,880,630
Balance at December 31, 2015	20	P 3,087,216,300	P 102,783,700	(P 134,085,227)	P 31,614,365	P 6,421,972,400	P 9,509,501,538

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015 (As Restated - See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,034,641,408	P 770,461,886
Adjustments for:			
Interest income	7, 8, 9	(6,106,297,926)	(5,409,745,401)
Interest received		6,030,358,708	5,284,362,274
Impairment losses	9, 12	807,718,818	1,142,000,000
Interest paid		(1,188,734,776)	(1,022,312,320)
Interest expense	14, 15	1,269,000,177	993,413,911
Depreciation and amortization	11, 12	424,043,498	381,629,477
Gain on sale of assets	11, 12, 13	(120,618,150)	(154,185,251)
Dividend received		72,175,500	32,478,975
Share in net income of subsidiaries		(7,326,646)	(49,225,733)
Operating profit before working capital changes		2,214,960,611	1,968,877,818
Decrease in financial assets at fair value through profit or loss		11,839	249,821,332
Increase in loans and receivables		(9,408,709,549)	(11,073,628,540)
Decrease in investment properties		183,383,528	933,420,554
Increase in assets held-for-sale and disposal group		(253,796,710)	(1,181,553,541)
Increase in deferred tax assets		(91,768,136)	(652,466,729)
Decrease (increase) in other resources		(332,311,373)	733,724,693
Increase in deposit liabilities		14,785,909,199	10,401,525,325
Increase in manager's check payable		32,393,360	114,541,689
Increase (decrease) in accrued interest, taxes and other expenses		23,186,895	(13,740,786)
Increase in other liabilities		257,840,416	271,936,619
Cash from operations		7,411,100,080	1,752,458,434
Cash paid for income taxes		(114,087,056)	(222,628,380)
Net Cash From Operating Activities		7,297,013,024	1,529,830,054
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of held-to-collect investments	8	3,147,248,052	-
Proceeds from maturity of held-to-collect investment	8	651,225,300	10,000,000
Acquisition of held-to-collect investments	8	(464,347,946)	(1,298,338,546)
Acquisitions of bank premises, furniture, fixtures and equipment	11	(223,675,048)	(211,260,361)
Proceeds from disposals of bank premises, furnitures, fixtures and equipment	11	11,872,979	47,227,281
Net Cash From (Used in) Investing Activities		3,122,323,337	(1,452,371,626)
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,419,336,361	77,458,428
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	7	3,943,015,524	3,539,093,668
Due from Bangko Sentral ng Pilipinas	7	7,523,946,480	7,809,123,402
Due from other banks	7	1,925,342,944	1,966,629,450
		13,392,304,948	13,314,846,520
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	7	4,146,105,882	3,943,015,524
Due from Bangko Sentral ng Pilipinas	7	14,712,658,644	7,523,946,480
Due from other banks	7	1,994,411,693	1,925,342,944
Loans and receivables arising from reverse repurchase agreement	7	2,958,465,090	-
		P 23,811,641,309	P 13,392,304,948

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

RCBC Savings Bank, Inc. (the Bank) was incorporated in the Philippines on January 15, 1996. The Bank provides traditional consumer banking products and services such as deposit products, home mortgage loans, auto loans and personal loans. The Bank has 152 banking offices nationwide.

The Bank is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Company), an entity incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. RCBC is a publicly listed bank at the Philippine Stock Exchange. The Parent Company is a 41.68% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered office, which is also its principal place of business, is located at RCBC Savings Bank Corporate Center, 26^{th} and 25^{th} Streets, Bonifacio Global City, Taguig City.

The registered office of RCBC, which is also its principal place of business, is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City.

1.2 Approval of 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 and for the year ended December 31, 2015 and the corresponding figures as of January 1, 2015) were authorized for issue by the Bank's Board of Directors (BOD) on February 20, 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. 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 the 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.

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

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.

Also, the Bank made material retrospective restatement to its financial statements as of and for the year ended December 31, 2015 and in the corresponding figures as of January 1, 2015 arising from the change in accounting of its investments in subsidiaries from the cost method to the equity method. This is in line with the adoption of PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, effective January 1, 2016, wherein it provides a third option which permits an entity to account for its investments in subsidiaries, associates and joint ventures using the equity method in its separate financial statements in addition to the current options of cost method or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*. While PAS 27 (Amendments) indicates that it is an option, the BSP, through its Circular No. 915, made it a mandatory requirement for banks and non-bank financial institutions to measure such investments using the equity method in their separate financial statements. As a result, the 2015 comparative financial statements and the January 1, 2015 corresponding figures contained in these financial statements were restated [see Note 2(a)(iii)]. Accordingly, the Bank presents a third statement of financial position as of January 1, 2015 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Also, the Bank made a retrospective reclassification in its 2015 statement of financial position by presenting the Deferred Tax Assets account with an amount of P652.5 million as of December 31, 2015 (nil as of January 1, 2015) from the Other Resources account to conform with the current presentation. This reclassification did not result in any adjustment to the balance of total resources, total comprehensive income or total equity as previously reported.

(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, 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 are expressed in United States (US) dollar as its functional currency are translated to Philippine pesos based on Philippine Dealing System closing rates (PDSCR) at the end of the reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses).

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

Discussed below are the relevant information about these amendments 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. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (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) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*.

The Bank has applied PAS 27 (Amendments) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements as of and for the year ended December 31, 2015 and the corresponding figures as of January 1, 2015. The effect of the restatement in the affected resources, liabilities and equity components, and 2015 profit or loss and total comprehensive income is shown in the succeeding page.

	December 31, 2015		
	As Previously Reported	Effects of Adoption of PAS 27 (Amendments)	As Restated
Changes in resources:			
Investments in subsidiaries	P 413,986,045	(P 193,386,437)	P 220,599,608
Assets held-for-sale and disposal group	1,588,243,513	33,522,333	1,621,765,846
		(159,864,104)	
Changes in liabilities –			
Other liabilities	1,823,706,902	2,479,907	1,826,186,809
Net decrease in capital funds		(P 162,344,011)	
Changes in statements of profit or loss and comprehensive income			
Dividend income	P 32,478,975	(P 32,478,975)	P -
Share in net income of subsidiaries	-	49,225,733	49,225,733
Net increase in net profit and total comprehensive income		P 16,746,757	

	January 1, 2015		
	As Previously Reported	Effects of Adoption of PAS 37 (Amendments)	As Restated
Changes in resources:			
Investments in subsidiaries	P 413,986,045	(P 213,646,833)	P 200,339,212
Assets held-for-sale and disposal group	406,903,649	36,822,294	443,725,943
		(176,824,539)	
Changes in liabilities –			
Other liabilities	1,517,628,757	2,266,229	1,519,894,986
Net decrease in capital funds		(P 179,090,768)	

The adoption of PAS 27 (Amendments) did not have a material impact on the Bank's statement of cash flows for the year ended December 31, 2015.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vi) PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*. These amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, *Business Combinations*, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(vii) 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:

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). It requires 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, it suggests 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 and PFRS 9 (2009, 2010 and 2013 version – herein referred to as PFRS 9). In addition to the principal classification categories for financial assets and financial liabilities which were early adopted by the Bank on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement for eligible debt securities; and,

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

In view of the Bank's early adoption of PFRS 9 management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank and conducting a comprehensive study on the potential impact of this standard prior to its mandatory adoption.

(iv) PFRS 15, *Revenue from Contract with Customers.* 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*, effective January 1, 2018. 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 Company'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's. 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.

(vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3 Separate Financial Statements and Investments in Subsidiaries

These financial statements are prepared as the Bank's separate financial statements. As allowed under existing financial reporting standards, the Bank has not presented consolidated financial statements because it is itself a wholly owned subsidiary of RCBC, which presents consolidated financial statements available for public use that comply with PFRS. Moreover, the Bank's debt or equity securities are not traded in organized financial market and the Bank is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

Subsidiaries are entities (including structured entities) over which the Bank has control. The Bank controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

Any goodwill arising from the acquisition of investments in subsidiaries, representing the excess of the acquisition costs over the fair value of the Bank's share in the identifiable net assets of the acquired subsidiaries or associates at the date of acquisition, is included in the amount recognized as investments in subsidiaries.

The Bank reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

The Bank's investments in subsidiaries are initially recognized at cost and subsequently accounted for in these separate financial statements using the equity method [see Note 2.2(a)(iii)]. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Bank's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Income or Losses of Subsidiaries account in the statement of profit or loss.

Changes resulting from other comprehensive income of the subsidiaries or items recognized directly in the subsidiaries' equity are recognized in other comprehensive income or equity of the Bank, as applicable. However, when the Bank's share of losses in subsidiaries equals or exceeds its interest in the subsidiaries, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiaries. If the subsidiaries subsequently report profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the subsidiaries are accounted for as a reduction of the carrying value of the investments.

Impairment loss is provided when there is objective evidence that the investments in subsidiaries will not be recovered (see Note 2.18).

2.4 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.

Regular purchases and sales of financial assets are recognized on their settlement date.

(a) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less, less any impairment in value.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables Arising from Reverse Repurchase Agreement, Loans and Receivables, Security deposits under Other Resources account and Investment securities at amortized cost under Trading and Investment Securities account.
For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and unrestricted balances due from BSP and due from other banks and loans and receivables arising from reverse repurchase agreement. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2016 and 2015, the Bank has not made such designation.

(ii) Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at fair value through other comprehensive income (FVOCI) at initial recognition. The Bank's financial assets at FVPL include government securities and corporate bonds which are held for trading purposes.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL category are included in Trading gains or losses under Other Operating Income or Expenses account in the statement of profit or loss in the period in which they arise, while realized gains or losses arising from disposals of these instruments are recognized as Gain or Loss on Sale of Assets in profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account, while dividend income is reported in profit or loss as part of Other Income under Other Operating Income account.

(iii) Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has not designated any equity instruments as at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account.

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Bank's right to receive dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model must be effected before the date of the reclassification which pertains to the beginning of the next reporting period following the change in the business model.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss (see Note 2.14).

(b) Impairment of Financial Assets

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or,

(vi) 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, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

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

If there is objective evidence that an impairment for individually assessed financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a financial asset has 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 foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment for loans and receivables, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the grading process of the Bank that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These 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 group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be 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 possible, the Bank seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for 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 evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses account in profit or loss.

When a loan receivable is determined to be uncollectible, it is written off against the related allowance for impairment. Such loan receivable is written off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in profit or loss.

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

(c) Derecognition of Financial Assets

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the 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.

2.5 Offsetting of Financial Instruments

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

2.6 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The cost of bank premises, furniture, fixtures and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

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

Buildings	20 years
Transportation equipment	5 years
Furniture, fixtures and other equipment	5-10 years

Leasehold rights and improvements are amortized over the estimated useful lives of the improvements of 10 years or the terms of the related leases, 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 2.18).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment 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.

2.7 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.18). 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.

Depreciation and impairment losses 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 as part of the Gain on Sale of Assets account under Other Operating Income, in the year of retirement or disposal.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.8 Assets Held-for-Sale and Disposal Group

Assets held-for-sale pertain to transportation equipment and real and other properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan. Assets held for disposal group pertains to the Bank investments in the shares of stock of its subsidiaries which the Bank has committed to liquidate under its equity divestment program in compliance with the mandate of the BSP (see Note 13.1.3).

The Bank classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale and disposal group are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

Assets that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss.

The gain or loss arising from the sale or remeasurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain on Sale of Assets or Miscellaneous Expenses account under Other Operating Income or Other Operating Expenses in the statement of profit or loss, respectively.

2.9 Intangible Assets

Intangible assets include goodwill and software used in operations and administration which are accounted for under the cost model are reported under Other Resources account in the statement of financial position. 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.

Goodwill represents the excess of the cost of acquisition over the fair values of the net assets purchased from Capitol Development Bank in 1998.

Goodwill having indefinite useful life is not subject to amortization but require an annual test for impairment while other intangible assets are subject to impairment testing as described in Note 2.18.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as these intangible assets are considered finite.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

The costs of any internally generated software development are recognized as intangible assets; they are subject to the same subsequent measurement method as externally acquired software licenses. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.18. Amortization commences upon completion of the asset.

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.

2.10 Other Resources

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

2.11 Financial Liabilities

Financial liabilities which include deposit liabilities, manager's check payable, accrued interest and other expenses (except for tax-related payables), and other liabilities, are recognized when the Bank becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for maturities beyond one year less settlement payments. All interest-related charges on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period when they arise.

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.

The Bank has no financial liabilities measured at FVPL at the end of each reporting period.

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.

2.12 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.13 Equity

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

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves pertain to remeasurements of post-employment defined benefit plan based on the accumulated balances of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of the defined benefit obligation.

Reserve for trust business represents the accumulated amount set aside by the Bank under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus shall amount to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

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

2.14 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before a revenue is recognized:

(a) *Interest income and expenses* are recognized in profit or loss for all instruments measured at amortized cost and interest-bearing financial assets at FVPL 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 the 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 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 the future cash flows for the purpose of measuring the impairment loss.

(b) *Loan fees,* which are reported as part of Service Charges, Commissions and Fees account in the statement of profit or loss, are recognized as earned over the terms of the credit lines granted to each borrower. *Service charges and penalties,* also presented as part of Service Charges, Commissions and Fees, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility.

(c) *Dividend income* is recognized when the Bank's right to receive payment is established. Dividend income is included as part of Other Operating Income in the statement of profit or loss.

(d) *Gain on sale of assets*, which arises from the disposals of assets held-for-sale, are recognized when the related risks and rewards of ownership of the assets have already been transferred to the buyer.

(e) *Gain on sale of investment securities*, which arises from the disposal of investment securities, 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 also result from mark-to-market valuation of the securities at the valuation date (see Note 2.4).

Costs and expenses are recognized in profit or loss upon utilization of the goods and/or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.19).

2.15 Leases

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

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

2.16 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos, except for the accounts of the Bank's FCDU which are maintained in US dollars [see Note 2.1(c)]. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.17 Employee Benefits

The Bank provides employee benefits to employees through a define benefit plan and defined contribution plan, and other employee benefits which are recognized and measured 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 post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero-coupon government bonds as published by the 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. Remeasurements are not reclassified to profit or loss in subsequent periods.

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 Other Operating Expenses or Other Operating Income 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. 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 or assets may be recognized if underpayment or prepayment has occurred and are included in liabilities or assets section of the statement of financial position.

(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 or when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, 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 each reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for 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 each reporting period. They are included as part of Accrued Interest, Taxes and Other Expenses account at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement which are expected to be subsequently used.

2.18 Impairment of Non-financial Assets

The Bank's investments in subsidiaries, bank premises, furniture, fixtures and equipment, investment properties, other resources (excluding security deposits) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use and goodwill are tested for impairment at least annually.

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

Except for intangible assets with an indefinite useful life (i.e., goodwill) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.19 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.20 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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 taxation authority.

2.21 Trust and Fiduciary Activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of resources on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as they are not resources and income or loss of the Bank.

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

2.23 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 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) Evaluation of Business Model Applied in Classifying Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those related to the Bank's investment, trading and lending strategies.

(b) Testing the Cash Flow Characteristics of Financial Assets

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the solely payments of principal and interest (SPPI) criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(c) Distinction Between Investment Properties, Assets Held-for-Sale and Owner-occupied Properties

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use 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 its banking operations or 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 and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. 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 6.

(e) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements as a lessee. 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. Management has assessed that all its existing lease arrangements qualify under operating lease.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and zontingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 26.

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 on-going 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 of Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each 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 Loans and Receivables and Investment Securities at Amortized Cost

The Bank reviews its loans and receivables portfolio to assess impairment at least on a semi-annual 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.

Moreover, the Bank holds debt securities measured at amortized cost included as part of Trading and Investment Securities in the statements of financial position as of December 31, 2016 and 2015.

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 receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9, while the information related to investment securities at amortized cost are presented in Note 8.2.

(b) Determination of Fair Value Measurement for Financial Assets at FVPL

The Bank carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 6.2). The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial assets would affect profit or loss and other comprehensive income in the next reporting periods.

The carrying values of the Bank's financial assets at FVPL as of December 31, 2016 and 2015 and the amounts of fair value changes recognized on those assets are disclosed in Note 8.1.

(c) Fair Value Measurement for Investment Properties

The Bank's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation, and are measured using cost model. The estimated fair value of investment property disclosed in Note 6.4 is determined on the basis of the appraisals conducted by professional and independent 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.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, and Computer Software

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of those assets 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 during the year. The carrying amount of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 11 and 12, respectively, while the carrying amount of computer software is presented in Note 13.2.2.

Based on management's assessment as of December 31, 2016 and 2015, there is no change in estimated useful lives of those assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Estimation of Impairment Losses for Non-financial Assets

Except for intangible assets with indefinite useful lives, 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 2.18. Though management believes that the assumptions used in the estimation of fair values of non-financial assets 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 the Bank's operations.

Impairment losses recognized on investment properties are discussed in Note 12.

(f) 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.

In 2016 and 2015, the Bank recognized deferred tax assets on their allowance for impairment related to certain financial assets at amortized cost (see Note 9), Investment Properties (see Note 12) and Assets Held-for-Sale (see Note 13) since management believes that the Bank will be able to generate sufficient taxable profit in the subsequent reporting periods against which the benefits of temporary difference can be utilized (see Note 22.1).

The Deferred Tax Assets amounted to P744.2 million and P652.5 million as of December 31, 2016 and 2015, respectively, in the statements of financial position.

(g) Valuation of Post-employment Defined Benefit Plan

The determination of the Bank's obligation and cost of post-employment defined benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses 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 post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 21.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to its financial instruments. The Bank's financial assets and financial liabilities by category are summarized in Note 5. The main types of risks are liquidity risk, market risk and credit risk.

The Bank's risk management is closely coordinated with its Parent Company, in close coordination with the BOD, Risk Management Committee (RMC) and the Risk Management Division (RMD) of the Bank and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate reasonable returns.

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

4.1 Liquidity Risk

The Bank manages its liquidity needs by carefully monitoring scheduled deposits, bills and debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity gap and liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection through maximum cumulative outflow (MCO). The MCO limit is a monetary amount set by the BOD to control the liquidity gap for such currency. The Bank manages market access to various funding alternatives, how much funds can be raised from the market in both normal and abnormal conditions if there is a breach in the MCO. This involves periodical review efforts to establish, maintain and diversify liabilities and their maturities.

The analyses of the groupings of resources, liabilities and off-statement of financial position items at the end of each reporting period are as follows:

Maximum Cumulative Outflow as of December 31, 2016 (in millions of Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Resources:							
Cash and other cash items	P 6	P -	P -	P -	P -	P 4,140	P 4,146
Due from BSP	-	-	-	-	-	14,713	14,713
Due from other banks:							
Local banks	1,811	18	-	-	-	-	1,829
Foreign banks	165	-	-	-	-	-	165
Loans and receivables arising from reverse repurchase agreement	2,958	-	-	-	-	-	2,958
Trading and investment securities - net	50	125	1,305	1,600	3,801	-	6,881
Loans and receivables - net	2,189	3,634	14,157	36,340	10,643	5,550	72,513
Investments in subsidiaries	-	-	-	-	-	155	155
Bank premises, furniture and fixtures - net	-	-	-	-	-	1,115	1,115
Investment properties - net	-	-	-	-	-	1,124	1,124
Assets held-for-sale and disposal group - net	-	-	-	-	-	1,876	1,876
Other resources - net	-	-	-	-	-	1,446	1,446
Total Resources	P 7,179	P 3,777	P 15,462	P 37,940	P 14,444	P 30,119	P 108,921
Liabilities:							
Deposits:							
Demand	P 148	P 556	P 834	P -	P -	P 8,023	P 9,561
Savings	803	1,046	1,569	-	-	19,977	23,395
Time	6,436	2,054	2,326	737	-	50,252	61,805
Manager's check payable	522	-	-	-	-	-	522
Accrued interest, taxes and other expenses:							
Payment orders payable	24	-	-	-	-	-	24
Accrued interest, taxes and other expenses	982	28	-	-	-	-	1,010
Unearned income and other deferred credits	-	-	-	-	-	5	5
Other liabilities	1,924	-	-	-	-	130	2,054
Total Liabilities	P 10,839	P 3,684	P 4,729	P 737	P -	P 78,387	P 98,376

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Equity:							
Common stock	P -	P -	P -	P -	P -	P 3,087	P 3,087
Additional paid-in capital	-	-	-	-	-	103	103
Surplus and trust reserves	-	-	-	-	-	7,459	7,459
Revaluation reserves	-	-	-	-	-	(104)	(104)
Total Equity	P -	P -	P -	P -	P -	P 10,545	P 10,545
On-book gap	**(P 3,660)**	**P 93**	**P 10,733**	**P 37,203**	**P 14,444**	**(P 58,813)**	**P -**
Cumulative on-book gap	**(P 3,660)**	**(P 3,567)**	**P 7,186**	**P 44,369**	**P 58,813**	**P -**	**P -**
Contingent liabilities:							
Trust department accounts	P 23,544	P -	P -	P -	P -	P -	P 23,544
Spot exchange sold	149	-	-	-	-	-	149
Late deposits/payments received	121	-	-	-	-	-	121
Standby letters of credit	59	-	-	-	-	-	59
Outward bills for collection	2	-	-	-	-	-	2
Total contingencies	P 23,875	P -	P -	P -	P -	P -	P 23,875
Off-book gap	**(P 30,471)**	**P 93**	**P 10,733**	**P 37,203**	**P 14,444**	**(P 58,836)**	**P 23,875**
Cumulative total gap	**(P 30,471)**	**(P 30,378)**	**(P 19,645)**	**P 17,558**	**P 32,002**	**(P 23,875)**	**(P 23,875)**

Maximum Cumulative Outflow as of December 31, 2015, As Restated – see Note 2.2 (in millions of Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Resources:							
Cash and other cash items	P 34	P -	P -	P -	P -	P 3,909	P 3,943
Due from BSP	1,186	-	-	-	-	6,338	7,524
Due from other banks:							
Local banks	1,699	-	-	-	-	-	1,699
Foreign banks	226	-	-	-	-	-	226
Trading and investment securities - net	55	51	751	1,709	7,649	-	10,215
Loans and receivables - net	3,391	3,620	12,654	31,722	9,443	2,838	63,668
Investments in subsidiaries	-	-	-	-	-	221	221
Bank premises, furniture and fixtures - net	-	-	-	-	-	1,156	1,156
Investment properties - net	-	-	-	-	-	1,194	1,194
Assets held-for-sale and disposal group - net	-	-	-	-	-	1,622	1,622
Other resources - net	-	-	-	-	-	1,261	1,261
Total Resources	P 6,591	P 3,671	P 13,405	P 33,431	P 17,092	P 18,539	P 92,729

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Liabilities:							
Deposits:							
Demand	P 85	P 1,355	P 2,032	P -	P -	P 6,262	P 9,734
Savings	430	2,038	3,057	-	-	20,510	26,035
Time	7,397	3,743	2,525	401	-	30,140	44,206
Manager's check payable	490	-	-	-	-	-	490
Accrued interest, taxes and other expenses:							
Payment orders payable	13	-	-	-	-	-	13
Accrued interest, taxes and other expenses	727	85	-	-	-	-	812
Unearned income and other deferred credits	-	-	-	-	-	103	103
Other liabilities	1,706	-	-	-	-	120	1,826
Total Liabilities	P 10,848	P 7,221	P 7,614	P 401	P -	P 57,135	P 83,219
Equity:							
Common stock	P -	P -	P -	P -	P -	P 3,087	P 3,087
Additional paid-in capital	-	-	-	-	-	103	103
Surplus and trust reserves	-	-	-	-	-	6,454	6,454
Revaluation reserves	-	-	-	-	-	(134)	(134)
Total Equity	P -	P -	P -	P -	P -	P 9,510	P 9,510
On-book gap	(P 4,257)	(P 3,550)	P 5,791	P 33,030	P 17,092	(P 48,106)	P -
Cumulative on-book gap	(P 4,257)	(P 7,807)	(P 2,016)	P 31,014	P 48,106	P -	P -
Contingent liabilities:							
Trust department accounts	P 21,123	P -	P -	P -	P -	P -	P 21,123
Spot exchange sold	179	-	-	-	-	-	179
Standby letters of credit	66	-	-	-	-	-	66
Late deposits/payments received	34	-	-	-	-	-	34
Outward bills for collection	2	-	-	-	-	-	2
Total contingencies	P 21,404	P -	P -	P -	P -	P -	P 21,404
Off-book gap	(P 25,661)	(P 3,550)	P 5,791	P 33,030	P 17,092	(P 48,106)	(P 21,404)
Cumulative total gap	(P 25,661)	(P 29,211)	(P 23,420)	P 9,610	P 26,702	(P 21,404)	(P 21,404)

4.2 Credit Risk

The BOD has the responsibility for approving and periodically reviewing the market risk strategy and significant credit risk policies of the Bank. The BOD shall determine that the Bank's capital level is adequate for the risks assessed to carry out the strategy.

Senior management has the responsibility for implementing the credit risk strategy approved by the BOD and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. To ensure sound credit portfolio, the Bank operates within a sound, well-defined credit granting criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of credit, and its source of repayment. The Bank also establishes overall credit limits at the level of individual borrowers and counterparties, and groups of connected borrowers and counterparties that will aggregate in a comparable meaningful manner of different types of exposures, both in the banking and trading books and on and off-statement of financial position.

(a) 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 (in millions of Philippine pesos).

	Notes	**2016**	2015
Cash and other cash items	7	**P 4,146**	P 3,943
Due from BSP	7	**14,713**	7,524
Due from other banks	7	**1,994**	1,925
Loans and receivables arising from reverse repurchase agreement	7	**2,958**	-
Investment securities at amortized cost	8	**6,881**	10,215
Loans and receivables – net	9	**72,512**	63,668
Other resources	13	**93**	91
		P 103,297	P 87,366

The credit risk quality of the Bank's financial assets is further described as follows:

(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 are Cash and Other Cash Items, Due from BSP, Due from Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution.

(ii) Financial Assets at FVPL and Investment Securities at Amortized Cost

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 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 analysis of the carrying amounts of loans and receivables and investment securities at amortized cost recognized in the financial statements and their credit grading are as follows (in millions of Philippine pesos):

	2016	
	Loans and Receivables	**Investment Securities at Amortized Cost**
Carrying amount in the statement of financial position	P 72,512	P 6,881
Individually assessed for impairment		
Especially mentioned/watch list	4,055	-
Sub-standard	1,203	-
Doubtful	-	-
Loss	593	-
Gross amount	5,851	-
Unearned interest discount	(5)	-
Prompt payment discount	(4)	-
Allowance for impairment	(989)	-
Carrying amount	4,853	-
Collectively assessed for impairment		
Unclassified	68,189	6,881
Allowance for impairment	(530)	-
Carrying amount	67,659	6,881
Total carrying amount	**P 72,512**	**P 6,881**

	2015	
	Loans and Receivables	Investment Securities at Amortized Cost
Carrying amount in the statement of financial position	P 63,688	P 10,215
Individually assessed for impairment		
Especially mentioned/watch list	4,091	-
Sub-standard	1,321	-
Doubtful	7	-
Loss	674	-
Gross amount	6,093	-
Unearned interest discount	(72)	-
Prompt payment discount	(32)	-
Allowance for impairment	(1,411)	-
Carrying amount	4,578	-
Collectively assessed for impairment		
Unclassified	59,540	10,275
Allowance for impairment	(450)	(60)
Carrying amount	59,090	10,215
Total carrying amount	P 63,668	P 10,215

(b) Concentration of Credit

Concentration of credit arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

For trading and investment securities, the Bank limits investments to government issues and securities issued by entities with high-quality investment ratings.

The information about the Bank's concentration of credit risk as to industry, particularly, of its loans and discount portfolio is presented in Note 9.

(b) Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans to borrower in the form of mortgage interests over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Generally, collateral is not held over loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral held against reverse repurchase agreement amounted to P2,958.5 million in December 31, 2016 (nil in 2015).

An estimate of the fair value of collateral and other security enhancements held against the Bank's loans and receivables as of December 31 is shown below (in millions of Philippine pesos).

	2016	2015
Against individually impaired		
Property – real estate	**P 19,638**	P 6,743
Chattel	**5,449**	3,850
Hold-out deposits	**454**	1,431
Against collectively impaired		
Property – real estate	**66,388**	179,300
Chattel	**26,237**	96,393
	P 118,166	P 287,717

4.3 Market Risk

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign currency denominated instruments and debt securities. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market risk management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and the BOD. In managing market risk, the Bank measures the sensitivity of its financial instruments primarily related to interest rate risk and foreign currency risk.

(a) Interest Rate Risk

The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-statement of financial position items to interest rate fluctuations. The focus of the analysis is in the impact of changes in interest rates on accrual or reported earnings. This analysis would give management information on the maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all interest rate sensitive assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net profit and equity.

With all other variables held constant, a positive gap on the Bank's interest rate sensitive financial assets and liabilities and increasing interest rate will increase net profit and equity. On the other hand, a negative gap and increasing interest rate will decrease net profit and equity.

The analyses of the groupings of interest rate sensitive resources, liabilities and off-statement of financial position items as of December 31, 2016 and 2015 are presented in the succeeding page.

Interest Rate Gap Summary (in million Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Rate Sensitive	Total
December 31, 2016							
Resources:							
Cash and cash equivalents	P 1,983	P 18	P -	P -	P -	P 18,852	P 20,853
Loans and receivables arising from reverse repurchase agreement	2,958	-	-	-	-	2,958	
Loans and receivable – net	2,442	1,837	10,677	48,889	3,117	5,551	72,513
Trading and investment securities – net	50	125	1,305	1,600	3,617	184	6,881
Other resources – net	-	-	-	-	-	5,716	5,716
Total Resources	P 7,433	P 1,980	P 11,982	P 50,489	P 6,734	P 30,303	P108,921
Liabilities:							
Deposits:							
Demand	P -	P -	P -	P -	P -	P 9,561	P 9,561
Savings	-	-	-	-	-	23,395	23,395
Time	35,728	9,554	12,252	4,270	1	-	61,805
Other liabilities	-	-	-	-	-	3,615	3,615
Total Liabilities	35,728	9,554	12,252	4,270	1	36,571	98,376
Equity	-	-	-	-	-	10,545	10,545
Total liabilities and equity	P 35,728	P 9,554	P 12,252	P 4,270	P 1	P 47,116	P108,921
Gap	**(P 28,295)**	**(P 7,574)**	**(P 270)**	**P 46,219**	**P 6,733**	**(P 16,813)**	**P -**
Cumulative Gap	**(P 28,295)**	**(P 35,869)**	**(P 36,139)**	**P 10,080**	**P 16,813**	**P -**	**P -**

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Rate Sensitive	Total
December 31, 2015, As Restated – see Note 2.2							
Resources:							
Cash and cash equivalents	P 3,145	P -	P -	P -	P -	P 10,247	P 13,392
Loans and receivable – net	2,811	3,496	12,376	31,160	11,550	2,275	63,668
Trading and investment securities – net	55	51	751	1,709	7,154	495	10,215
Other resources – net	-	-	-	-	-	5,454	5,454
Total Resources	P 6,011	P 3,547	P 13,127	P 32,869	P 18,704	P 18,471	P 92,729
Liabilities:							
Deposits:							
Demand	P 85	P 1,355	P 2,032	P -	P -	P 6,262	P 9,734
Savings	430	2,038	3,057	-	-	20,510	26,035
Time	7,397	3,743	2,525	400	-	30,141	44,206
Other liabilities	-	-	-	-	-	3,244	3,244
Total Liabilities	7,912	7,136	7,614	400	-	60,157	83,219
Equity	-	-	-	-	-	9,510	9,510
Total liabilities and equity	P 7,912	P 7,136	P 7,614	P 400	P -	P 69,667	P 92,729
Gap	(P 1,901)	(P 3,589)	P 5,513	P 32,469	P 18,704	(P 51,196)	P -
Cumulative Gap	(P 1,901)	(P 5,490)	P 23	P 32,492	P 51,196	P -	P -

(b) Foreign Currency Risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that the Bank believes to be relatively conservative for a financial institution engaged in that type of business. While most of the Bank's financial instruments are denominated in Philippine peso, it also maintains reasonable level of foreign currencies denominated in US dollar, European Union (EU) euro, and Japanese yen.

The Bank's foreign exchange exposure is guided by the limits approved by the BOD at the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

A summary of the Bank's significant financial resources and financial liabilities accounts broken down into their foreign currency and Philippine peso components as of December 31 is presented below (in millions of Philippine pesos).

	US Dollar	EU Euro	Japanese Yen	Philippine Peso	Total
December 31, 2016					
Resources:					
Cash and other cash items	P 187	P 8	P 9	P 3,942	P 4,146
Due from BSP	-	-	-	14,713	14,713
Due from other banks	1,160	95	61	678	1,994
Loans and receivables arising from reverse repurchase agreement	-	-	-	2,958	2,958
Investment securities at amortized cost - net	4,975	-	-	1,906	6,881
Loans and Receivables - net	74	-	-	72,439	72,513
	P 6,396	P 103	P 70	P 96,636	P 103,205
Liabilities:					
Deposit liabilities	P 6,146	P 158	P 68	P 88,389	P 94,761
Manager's check payable	-	-	-	522	522
Accrued interest and other expenses	10	-	-	1,029	1,039
Other liabilities	7	-	-	2,047	2,054
	P 6,163	P 158	P 68	P 91,987	P 98,376

	US Dollar	EU Euro	Japanese Yen	Philippine Peso	Total
December 31, 2015, As Restated – see Note 2.2					
Resources:					
Cash and other cash items	P 100	P 11	P 13	P 3,819	P 3,943
Due from BSP	-	-	-	7,524	7,524
Due from other banks	1,115	100	72	638	1,925
Investment securities at amortized cost - net	5,103	52	-	5,060	10,215
Loans and receivables - net	71	3	-	63,594	63,668
	P 6,389	P 166	P 85	P 80,635	P 87,275
Liabilities:					
Deposit liabilities	P 6,246	P 167	P 81	P 73,481	P 79,975
Manager's check payable	-	-	-	490	490
Accrued interest and other expenses	9	-	-	919	928
Other liabilities	7	-	6	1,813	1,826
	P 6,262	P 167	P 87	P 76,703	P 83,219

The Bank's foreign currency sensitivity and risk are measured and controlled through the value-at-risk (VaR) model as discussed below.

The Bank's market risk management limits are generally categorized as limits on:

- VaR – the RMD computes the value-at-risk benchmarked at a level which is a percentage of projected earnings. The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – the RMD sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – the RMD sets the nominal amount of US dollar denominated instruments at the BSP-mandated US dollar overbought position limit.

- Trading volume – the RMD sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – the RMD computes the earnings-at-risk based on a percentage of projected annual net interest income.

The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book. VaR is one of the key measures in the Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the Bank's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

A summary of the VaR position of the trading portfolios at December 31, 2016 and 2015 and during the period is as follows (in thousands of Philippine Pesos):

					Range for the Year					
	At December 31		**Average**		**Minimum**		**Maximum**		**VaR Limit**	
2016:										
Interest rate risk	**P**	**117,251**	**P**	**130,094**	**P**	**96,307**	**P**	**207,924**	**P**	**25,000**
Foreign currency risk		**355**		**423**		**146**		**1,031**		**12,500**
	P	**117,606**	**P**	**130,517**						
2015:										
Interest rate risk	P	161,206	P	130,948	P	103,263	P	169,145	P	25,000
Foreign currency risk		307		503		96		952		12,500
	P	161,513	P	131,451						

4.4 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 RMD of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The RMD applies a number of techniques to efficiently manage operational risks. Among these are:

- 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 RMD to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With RMD'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 RMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

In 2015, an Operational Risk System which was implemented across the RCBC group, including the Bank. It is the intention of RCBC Group to eventually migrate to the Advanced Management Approach for Operational Risk, subject to approval by the BSP.

The Bank in coordination and consistent with RCBC has Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data and contingency processing requirements in the event of a disaster.

4.4.1 Reputation 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, in coordination and consistent with RCBC, adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Public Relations Committee chaired by the Head of the Parent Company's Corporate Communications Division.

4.4.2 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.

4.5 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 Chief Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2016		2015	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
At amortized cost:					
Cash and other cash items	7	**P 4,146,105,882**	**P 4,146,105,882**	P 3,943,015,524	P 3,943,015,524
Due from BSP	7	**14,712,658,644**	**14,712,658,644**	7,523,946,480	7,523,946,480
Due from other banks	7	**1,994,411,693**	**1,994,411,693**	1,925,342,944	1,925,342,944
Loans and receivables arising from reverse repurchase agreement	7	**2,958,465,090**	**2,958,465,090**	-	-
Investment securities at amortized cost - net	8	**6,881,206,226**	**6,742,753,338**	10,215,331,632	9,724,002,115
Loans and receivables - net	9	**72,512,195,758**	**72,512,195,758**	63,667,546,991	63,667,546,991
Other resources - net	13	**92,715,315**	**92,715,315**	90,623,877	90,623,877
		103,297,758,608	**103,159,305,720**	87,365,807,448	86,874,477,931
At fair value –					
Financial assets at FVPL	8	**-**	**-**	11,840	11,840
		P103,297,758,608	**P103,159,305,720**	P 87,365,819,288	P 86,874,489,771
Financial liabilities					
At amortized cost:					
Deposit liabilities	14	**P 94,760,715,397**	**P 94,760,715,397**	P 79,974,806,198	P 79,974,806,198
Manager's check payable	16	**521,972,467**	**521,972,467**	489,579,107	489,579,107
Accrued interest and other expenses	17	**901,043,260**	**901,043,260**	800,954,597	800,954,597
Other liabilities	18	**1,876,025,888**	**1,876,025,888**	1,688,380,475	1,688,380,475
		P 98,059,757,012	**P 98,059,757,012**	P 82,953,720,377	P 82,953,720,377

Except for investment securities at amortized cost with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Bank's investment securities at amortized cost and other financial assets measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 6.2

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets, presented in the statements of financial position at gross amounts, are covered by enforceable master netting arrangements and similar agreements:

	Note	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Loans and receivables	9				
December 31, 2016		**P 72,512,195,758**	**(P 454,273,330)**	**P -**	**P 72,057,922,428**
December 31, 2015		P 63,667,546,991	(P 1,430,722,712)	P -	P 62,236,824,279

The following financial liabilities, presented in the statements of financial position at gross amounts, are covered by enforceable master netting arrangements and similar agreements:

	Note	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Deposit liabilities	14				
December 31, 2016		**P 94,760,715,397**	**(P 454,273,330)**	**P -**	**P 94,306,442,067**
December 31, 2015		P 79,974,806,198	(P 1,430,722,712)	P -	P 78,544,083,486

For financial assets and financial liabilities (i.e., loans and receivables and the related hold-out deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and its customers allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

- 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 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

6.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's categories and class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2015 (nil as of December 31, 2016).

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial assets at FVPL – Debt securities	P 11,840	P -	P -	P 11,840

The fair value of the Bank's Trading and Investment Securities, which includes Financial Assets at FVPL as shown above, and Investments Securities at Amortized Cost (see Note 8), with fair value disclosed amounting to P6,742.8 million and P9,724.0 million (see Notes 5.1 and 6.3) as of December 31, 2016 and 2015, respectively. The fair value of the Bank's government bonds and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based or referenced on price quoted or actually dealt in an active market (i.e., PDEx) at the end of each of the reporting period, including peso-denominated government securities based on the weighted average of done or executed deals.

The Bank has no financial liabilities measured at fair value as of December 31, 2016.

6.3 *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 2016 and 2015 statements of financial position but for which fair values is disclosed.

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and other cash items	P 4,146,105,882	P -	P -	P 4,146,105,882
Due from BSP	14,712,658,644	-	-	14,712,658,644
Due from other banks	1,994,411,693	-	-	1,994,411,693
Loans and receivables arising from reverse repurchase agreement	2,958,465,090	-	-	2,958,465,090
Loans and receivables - net	-	-	72,512,195,758	72,512,195,758
Investment securities at amortized cost - net	6,881,206,226	-	-	6,881,206,226
Other resources - net	-	-	92,715,315	92,715,315
	P30,692,847,535	**P -**	**P72,604,911,073**	**P103,297,758,608**
Financial liabilities:				
Deposit liabilities	P 94,760,715,397	P -	P -	P94,760,715,397
Manager's check payable	-		521,972,467	521,972,467
Accrued interest and other expenses	-	-	901,043,260	901,043,260
Other liabilities	-	-	1,876,025,888	1,876,025,888
	P94,760,715,397	**P -**	**P 3,299,041,615**	**P 98,059,757,012**

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and other cash items	P 3,943,015,524	P -	P -	P 3,943,015,524
Due from BSP	7,523,946,480	-	-	7,523,946,480
Due from other banks	1,925,342,944	-	-	1,925,342,944
Loans and receivables - net	-	-	63,667,546,991	63,667,546,991
Investment securities at amortized cost - net	9,724,002,115	-	-	9,724,002,115
Other resources - net	-	-	90,623,877	90,623,877
	P 23,116,307,063	P -	P63,758,170,868	P86,874,477,931
Financial liabilities:				
Deposit liabilities	P 79,974,806,198	P -	P -	P79,974,806,198
Manager's check payable	-	-	489,579,107	489,579,107
Accrued interest and other expenses	-	-	800,954,597	800,954,597
Other liabilities	-	-	1,688,380,475	1,688,380,475
	P 79,974,806,198	P -	P 2,978,914,179	P82,953,720,377

(a) *Due from BSP and Other Banks, and Loan and Receivables Arising from Reverse Repurchase Agreement*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes 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 the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Loans and Receivables*

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) *Investment Securities at Amortized Cost*

Investment Securities at Amortized Cost consist of government and corporate bonds. The fair value of these investment securities is determined by direct reference to published price quoted in an active market for traded securities.

(d) *Deposit Liabilities and Manager's Check Payable*

The estimated fair value of deposits and manager's check payable is the amount repayable on demand.

(e) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

6.4 Fair Value Disclosures for 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 P2.6 billion and P2.5 billion as of December 31, 2016 and 2015, respectively.

The fair values disclosed for the Bank's investment properties as of December 31, 2016 and 2015 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

The fair value of the Bank's 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 the observable recent prices of the reference properties and were 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 meter; hence, the higher the price per square meter, the higher the fair value of the properties.

(b) *Fair Value Measurement for Buildings*

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, 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 technique in 2016 and 2015.

7. CASH AND CASH EQUIVALENTS

The components of this account are as follows:

	Note	**2016**	2015
Cash and other cash items	14	**P 4,146,105,882**	P 3,943,015,524
Due from BSP	14	**14,712,658,644**	7,523,946,480
Due from other banks		**1,994,411,693**	1,925,342,944
Loans and receivables arising from reverse repurchase agreement		**2,958,465,090**	-
		P 23,811,641,309	P 13,392,304,948

7.1 Cash and Other Cash Items

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 teller, including automated teller machines. Cash items consist of foreign currency notes and coins and checks and cash items (other than currency on hand), such as checks drawn on other banks and other items received after the Bank's clearing cut-off time until the close of the regular banking hours. The breakdown of cash and other cash items by currency is shown below.

	2016	2015
Philippine peso	**P 3,941,877,706**	P 3,818,882,388
Foreign currencies	**204,228,176**	124,133,136
	P 4,146,105,882	P 3,943,015,524

7.2 Due from BSP

Due from BSP represents the aggregate balance of noninterest-bearing demand deposit account and interest-bearing overnight and term deposit accounts, both in local currency, maintained with the BSP primarily to meet a portion of reserve requirements and to serve as a clearing account for interbank claims (see Notes 14 and 24).

7.3 Due from Other Banks

The balance of due from other banks represents regular deposits with the following (see also Note 23.2):

	2016	2015
Local banks	**P 1,829,677,031**	P 1,699,032,422
Foreign banks	**164,734,662**	226,310,522
	P 1,994,411,693	P 1,925,342,944

Interest rates on these deposits range from 0.50% to 1.75% per annum in 2016 and 0.50% to 1.50% in 2015.

The breakdown of this account by currency is shown below.

	2016	2015
Philippine peso	**P 677,608,719**	P 638,217,302
Foreign currencies	**1,316,802,974**	1,287,125,642
	P 1,994,411,693	P 1,925,342,944

7.3 Loans and Receivables Arising from Reverse Repurchase Agreement

These represent loans and receivables from BSP as of December 31, 2016 (nil as of December 31, 2015) arising from overnight lending from excess liquidity which earn effective interest of 3.0% and have maturity of five days. Interest income earned from these financial assets is presented under Interest Income in the 2016 statement of profit or loss.

8. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	2016	2015
Investment securities at amortized cost	**P 6,881,206,226**	P 10,215,331,632
Financial assets at FVPL	**-**	11,840
	P 6,881,206,226	P 10,215,343,472

8.1 Financial Assets at FVPL

Financial assets at FVPL as of December 31, 2016 and 2015 are held-for-trading which include peso-denominated corporate bonds and treasury bills and US dollar-denominated sovereign bonds. These debt securities have maturities of seven to ten years and earn annual interest ranging from 2.20% to 5.75% in 2015. The Bank also traded various peso-denominated treasury bills and government bonds in 2016 and 2015 with interest rates ranging from 1.33% to 6.06% per annum.

The Bank recognized net fair value gains on the changes in the fair value of these financial assets amounting to P14.3 million and P25.2 million in 2016 and 2015, respectively, as part of Trading gains under Other Operating Income in the statements of profit or loss (see Notes 19.1). On the other hand, the Bank recognized loss on the disposal of such securities amounting to P4.1 million in 2016 and P5.6 million in 2015, and are presented as part of Other Operating Expense in the statements of profit or loss.

8.2 Investment Securities at Amortized Cost

These accounts are composed of investment in government and corporate bonds denominated in Philippine pesos, US dollars and E.U. euro with fixed interest rate ranging from 1.33% to 6.06% per annum in 2016 and 1.30% to 6.06% per annum in 2015.

These debt securities have maturities ranging from one to 18 years.

In March 2016, the Bank's Executive Committee approved the disposal of P4.2 billion of investment securities at amortized cost relative to the Bank's liquidity requirements. The sale of such investments qualify as a permitted sale under PFRS 9 since such is considered significant but infrequent sale. The Bank recognized loss on the disposal of such securities amounting to P174.2 million and is presented as Loss on Sale of Securities account in the 2016 statement of profit or loss. As of December 31,2016, the Bank sold P2.7 billion out of the P4.2 billion investments approved for disposal. The Bank's management has no intention to dispose of the remaining investments.

The composition of these financial assets as to type of counterparty is shown below.

	2016	2015
Government	**P 3,712,562,982**	P 6,875,092,497
Corporate	**3,228,740,435**	3,400,348,166
	6,941,303,417	10,275,440,663
Allowance for impairment	**(60,097,191)**	(60,097,191)
	P 6,881,206,226	P 10,215,343,472

The breakdown of these investment securities by currency is shown below.

	2016	2015
US dollar	**P 4,975,154,242**	P 5,103,272,792
Philippine peso	**1,906,051,984**	5,060,345,335
E.U. euro	**-**	51,725,345
	P 6,881,206,226	P 10,215,343,472

The information about the fair value measurement of the Bank's investments and trading securities are presented in Note 6.2.

8.3 Interest Income on Trading and Investment Securities

Interest income earned by the Bank from its trading and investment securities are as follow:

	2016	2015
Investment securities at amortized cost	**P 324,575,341**	P 386,238,205
Financial assets at FVPL	**2,774,935**	15,386,815
	P 327,350,276	P 401,625,020

9. LOANS AND RECEIVABLES

This account is comprised of:

	2016	2015
Loans:		
Loans and discounts	**P 72,516,171,002**	P 63,223,764,680
Prompt payment discount	**(4,403,167)**	(31,674,223)
Unearned discount and interest	**(5,128,729)**	(72,445,106)
Allowance for impairment	**(2,049,231,015)**	(1,742,368,966)
	70,457,408,091	61,377,276,385
Other receivables:		
Sales contracts receivable	**1,069,560,580**	1,223,379,325
Accrued interest receivable	**687,174,362**	611,235,144
Accounts receivable	**441,725,320**	574,794,933
Allowance for impairment	**(143,672,595)**	(119,138,796)
	2,054,787,667	2,290,270,606
	P 72,512,195,758	P 63,667,546,991

Included in these accounts are non-accruing loans (net of allowance) amounting to P3,326.0 million and P1,183.0 million as of December 31, 2016 and 2015, respectively.

Loans and receivables bear average effective interest rates of 7.00% to 57.60% per annum in 2016 and 5.00% to 58.00% per annum in 2015.

The concentration of credit of the Bank's loans and discounts as to industry follows:

	2016	2015
Consumer	**P 31,163,649,969**	P 23,269,742,601
Real estate	**26,289,857,489**	25,205,918,640
Other community, social and personal activities	**4,278,570,518**	3,844,203,383
Wholesale and retail trade	**2,466,798,572**	2,517,307,212
Transportation and communication	**2,313,217,281**	2,056,944,097
Financial intermediaries	**1,510,712,087**	1,189,776,644
Construction	**1,352,288,158**	1,195,574,420
Utilities	**582,014,584**	600,545,412
Manufacturing	**364,134,656**	360,369,559
Agriculture, fishing and forestry	**204,380,337**	154,056,832
Miscellaneous business activities	**1,990,547,351**	2,829,325,880
	P 72,516,171,002	P 63,223,764,680

Loans and discounts under miscellaneous business activities mainly pertain to loans to private households. Included also under miscellaneous business activities are back-to-back loans which are secured by hold-out deposits.

The breakdown of total loans and discounts as to secured and unsecured follows:

	2016	2015
Secured:		
Real estate	**P 37,667,554,308**	P 37,478,931,880
Chattel	**31,360,835,625**	21,971,701,624
Hold out on deposit	**454,273,330**	1,432,164,566
	69,482,663,263	60,882,798,070
Unsecured	**3,033,507,739**	2,340,966,610
	P 72,516,171,002	P 63,223,764,680

The maturity profile of the total loans and discounts follows:

	2016	2015
Within one year	**P 19,907,364,221**	P 19,665,256,469
Beyond one year	**52,608,806,781**	43,558,508,211
	P 72,516,171,002	P 63,223,764,680

All of the Bank's loans and receivables have been reviewed for indications of impairment. Certain loans and receivables were found to be impaired; accordingly, adequate amounts of allowance have been recognized.

A reconciliation of the amount of allowance for impairment on loans and receivables at the beginning and end of 2016 and 2015 is shown below.

	2016	2015
Balance at beginning of year	**P 1,861,507,762**	P 1,465,647,844
Impairment losses	**665,000,000**	917,000,000
Write-offs/reversal	**(333,604,152)**	(521,140,082)
Balance at end of year	**P 2,192,903,610**	P 1,861,507,762

10. INVESTMENTS IN SUBSIDIARIES

This account is composed of the Bank's interest in the shares of stock of special purpose companies (SPCs) as shown below.

The registered office of Niyog (which is 51.89% owned by the Bank), which is also its principal place of business, is located at 12th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City. The registered office of Cajel (wholly owned by the Bank), which is also its principal place of business, is located at Unit 1803, Philippine Stock Exchange Centre, West Tower, Exchange Road, Ortigas Center, Pasig City. On the other hand, the registered office and principal place of business of the other SPCs is the same registered business address of the Bank as a result of the amendment of the SPCs' Articles of Incorporation and as approved by the SEC in various dates in 2014. The Bank's investments in subsidiaries, as restated, in 2016 and 2015 consist of the following in the succeeding page:

	Niyog	Cajel	Total
December 31, 2016			
Acquisition cost	P 223,410,225	P 49,833,277	P 273,243,502
Accumulated equity in net earnings (losses):			
Balance at beginning of the year	(56,474,165)	3,830,271	(52,643,894)
Share in net income	7,957,137	(630,491)	7,326,646
Cash dividend	(72,175,500)	-	(72,175,500)
Others	(610,399)	-	(610,399)
Balance at end of year	**P 102,107,298**	**P 53,033,057**	**P 155,140,355**
December 31, 2015 (As Restated – see Note 2.2)			
Acquisition cost	P 223,410,225	P 49,833,277	P 273,243,502
Accumulated equity in net Earnings (losses):			
Balance at beginning of the year	(71,301,898)	(1,602,392)	(72,904,290)
Share in net income	46,711,386	2,514,347	49,225,733
Cash dividend	(32,478,975)	-	(32,478,975)
Others	595,322	2,918,316	3,513,638
Balance at end of year	P 166,936,060	P 53,663,548	P 220,559,608

The total cost of investments in subsidiaries pertains to the carrying amount of the Bank's interest in the shares of stock of the SPCs previously classified as part of Investment Properties account until 2009 which were transferred to the Bank from certain borrowers for the settlement of their indebtedness with the Bank through dacion of certain real properties but effected through the creation of SPCs.

The Bank obtained approval from the BSP, dated March 2009, to reclassify such portion of Investment Properties account to Investments in Subsidiaries account subject to the following conditions: (i) the Bank should immediately dissolve the SPCs once the underlying dacioned real property assets are sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period.

In partial compliance with the requirement of the BSP, the management of the Bank resolved that the SPCs be disposed of through the conversion of the SPCs' existing common shares of stock into redeemable preferred shares and subsequently redeeming and retiring the same. Accordingly, at their special meeting held on September 30, 2013, the BOD and the stockholders of the SPCs approved that a portion of the common shares shall be convertible to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the following SPCs have been amended and subsequently approved by the SEC on November 28, 2013:

(a) Goldpath Properties Development Corporation (Goldpath)
(b) Eight Hills Property and Development Corporation (Eight Hills)
(c) Crescent Park Property and Development Corporation (Crescent)
(d) Niceview Property and Development Corporation (Niceview)
(e) Lifeway Property and Development Corporation (Lifeway)
(f) Gold Place Properties Development Corporation (Gold Place)
(g) Princeway Properties Development Corporation (Princeway)
(h) Greatwings Properties Development Corporation (Greatwings)
(i) Top Place Properties Development Corporation (Top Place)
(j) Crestview Properties Development Corporation (Crestview)
(k) Best Value Property and Development Corporation (Best Value)

On December 23, 2013, the SPCs' BOD approved the redemption of the SPC's respective preferred shares for a total consideration of P1,554.6 million.

In relation to the SPC disposal plan and to fully comply with the requirements of the BSP, the BOD of the Bank has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2016 which was approved by the SEC in various dates during the last quarter of 2014. As the Bank is committed and is in the process of liquidating the operations of those SPCs which is expected to be completed within 2017, the carrying amounts of the Bank's equity investments in SPCs subject for liquidation are accounted for under PFRS 5 after retrospectively applying the equity method [see Note 2.2(a)(iii)], hence, classified as assets held-for-sale and disposal group as part of Other Resources account in the 2016 statement of financial position (see Note 13.1).

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the gross carrying amounts and the accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015 follows:

	Land	Buildings	Transportation Equipment	Furniture, Fixtures and Other Equipment	Leasehold Rights and Improvements	Building under Construction	Total
December 31, 2016							
Cost	P 363,268,068	P 275,049,703	P 87,585,127	P 1,245,225,336	P 252,782,828	P -	P 2,223,911,062
Accumulated depreciation and amortization	-	(208,138,718)	(42,082,186)	(858,858,170)	-	-	(1,109,079,074)
Net carrying amount	**P 363,268,068**	**P 66,910,985**	**P 45,502,941**	**P 386,367,166**	**P 252,782,828**	**P -**	**P 1,114,831,988**
December 31, 2015							
Cost	P 363,268,068	P 266,828,294	P 83,154,264	P 1,182,833,521	P 233,766,922	P -	P 2,129,851,069
Accumulated depreciation and amortization	-	(196,848,490)	(39,111,498)	(737,576,883)	-	-	(973,536,871)
Net carrying amount	P 363,268,068	P 69,979,804	P 44,042,766	P 445,256,638	P 233,766,922	P -	P 1,156,314,198
January 1, 2015							
Cost	P 369,704,554	P 251,815,991	P 73,988,571	P 1,158,020,309	P 241,340,926	P -	P 2,094,870,351
Accumulated depreciation and amortization	-	(188,391,315)	(33,963,799)	(640,842,453)	-	-	(863,197,567)
Net carrying amount	P 369,704,554	P 63,424,676	P 40,024,772	P 517,177,856	P 241,340,926	P -	P 1,231,672,784

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015 is shown below.

	Land	Buildings	Transportation Equipment	Furniture, Fixtures and Other Equipment	Leasehold Rights and Improvements	Building under Construction	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 363,268,068	P 69,979,804	P 44,042,766	P 445,256,638	P 233,766,922	P -	P 1,156,314,198
Additions	-	8,221,409	22,068,404	81,302,158	112,083,077	-	223,675,048
Disposal	-	-	(6,376,629)	(1,627,519)	(3,381,506)	-	(11,385,654)
Reclassifications	-	-	-	(94,258)	-	-	(94,258)
Depreciation and amortization charges for the year	-	(11,290,228)	(14,231,600)	(138,469,853)	(89,685,665)	-	(253,677,346)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 363,268,068**	**P 66,910,985**	**P 45,502,941**	**P 386,367,166**	**P 252,782,828**	**P -**	**P 1,114,831,988**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 369,704,554	P 63,424,676	P 40,024,772	P 517,177,856	P 241,340,926	P -	P 1,231,672,784
Additions	4,089,814	19,288,332	20,834,106	78,623,354	88,424,755	-	211,260,361
Disposal	(10,526,300)	(423,989)	(3,922,664)	(4,737,436)	(23,379,081)	-	(42,989,470)
Reclassifications	-	1,079,979	-	-	(1,079,979)	-	-
Depreciation and amortization charges for the year	-	(13,389,194)	(12,893,448)	(145,807,136)	(71,539,699)	-	(243,629,477)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P 363,268,068	P 69,979,804	P 44,042,766	P 445,256,638	P 233,766,922	P -	P 1,156,314,198

Depreciation and amortization expenses on the Bank's premises, furniture, fixtures, and equipment amounting to P253.7 million in 2016 and P243.6 million in 2015 are shown as part of the Depreciation and Amortization account in the statements of profit or loss. The Bank recognized a gain on disposal of bank premises, furniture, fixtures and equipment totalling P0.4 million and P4.2 million in 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the gross carrying amount of the Bank's fully-depreciated assets that are still in use in operations is P54.0 million and P50.2 million, respectively.

BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with this BSP requirement.

12. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land and buildings acquired through foreclosure or dacion as payment of outstanding loans by the borrowers.

A reconciliation of the gross carrying amounts and the accumulated depreciation and impairment losses of investment properties at the beginning and end of 2016 and 2015, follows:

	Land	Building	Total
December 31, 2016			
Cost	P 619,556,356	P 962,633,510	P 1,582,189,866
Accumulated impairment	(196,167,367)	(29,842,546)	(226,009,913)
Accumulated depreciation	-	(232,111,216)	(232,111,216)
Net carrying amount	**P 423,388,989**	**P 700,679,748**	**P 1,124,068,737**
December 31, 2015			
Cost	P 674,552,371	P 775,072,789	P 1,449,625,160
Accumulated impairment	(23,621,783)	(39,864,146)	(63,485,929)
Accumulated depreciation	-	(191,849,914)	(191,849,914)
Net carrying amount	P 650,930,588	P 543,358,729	P 1,194,289,317
January 1, 2015			
Cost	P 1,796,870,535	P 1,551,954,948	P 3,348,825,483
Accumulated impairment	(153,527,423)	(51,655,289)	(205,182,712)
Accumulated depreciation	-	(540,870,340)	(540,870,340)
Net carrying amount	P 1,643,343,112	P 959,429,319	P 2,602,772,431

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2016 and 2015 is shown below.

	Land	Building	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 650,930,588	P 543,358,729	P 1,194,289,317
Additions	266,901,036	808,340,013	1,075,241,049
Disposals	(295,494,243)	(252,513,120)	(548,007,363)
Reclassification (see Note 13.1)	(111,229,574)	(173,139,723)	(284,369,297)
Impairment losses	(87,718,818)	(55,000,000)	(142,718,818)
Depreciation charges for the year	-	(170,366,151)	(170,366,151)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 423,388,989**	**P 700,679,748**	**P 1,124,068,737**
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 1,643,343,112	P 959,429,319	P 2,602,772,431
Additions	195,063,152	328,410,170	523,473,322
Disposals	(111,861,286)	(113,863,660)	(225,724,946)
Reclassification (see Note 13.1)	(985,614,390)	(357,617,100)	(1,343,231,490)
Impairment losses	(90,000,000)	(135,000,000)	(225,000,000)
Depreciation charges for the year	-	(138,000,000)	(138,000,000)
Balance at December 31, 2015, net of accumulated depreciation and impairment	P 650,930,588	P 543,358,729	P 1,194,289,317

A reconciliation of the aggregate amount of the accumulated depreciation and impairment at the beginning and end of 2016 and 2015 is shown below.

		2016		2015
Balance at beginning of year	**P**	**255,335,843**	P	746,053,052
Depreciation during the year		**170,366,152**		138,000,000
Impairment losses		**142,718,818**		225,000,000
Reclassification to assets held-for-sale (see Note 13.1)	**(**	**89,653,785)**	(	717,422,938)
Reversal due to disposals	**(**	**20,645,899)**	(	136,294,271)
Balance at end of year	**P**	**458,121,129**	P	255,335,843

Depreciation charges are presented as part of Depreciation and Amortization account in the statements of profit or loss. Real property taxes incurred on these investment properties amounted to P2.4 million and P2.1 million in 2016 and 2015, respectively, and are presented as part of Taxes and Licenses account in the statements of profit or loss.

The Bank recognized a gain on disposal of investment properties totalling to P85.5 million P87.9 million in 2016 and 2015, respectively.

The information about the fair values of the Bank's investment properties are presented in Note 6.4.

As of December 31, 2016 and 2015, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

13. ASSETS HELD-FOR-SALE AND DISPOSAL GROUP AND OTHER RESOURCES

13.1 Assets Held-for-Sale and Disposal Group

This account consists of:

	Note		2016		2015 (As Restated – see Note 2.2)
Foreclosed real properties	13.1.1	**P**	**1,800,071,359**	P	1,861,375,308
Foreclosed automobiles	13.1.2		**426,469,978**		266,656,213
Equity investments in subsidiaries	13.1.3		**281,163,366**		280,643,866
			2,507,704,703		2,408,675,387
Allowance for impairment		**(**	**632,142,147)**	(	786,909,541)
		P	**1,875,562,556**	P	1,621,765,846

13.1.1 Foreclosed Real Properties

This account consists of real estate properties, located in different provinces of the Philippines, which are repossessed through foreclosure or dacion arrangement in lieu of payment of outstanding loan receivables and the corresponding interest from various borrowers. These properties were previously presented as part of Investment Properties in the 2014 statement of financial position (see Note 12).

In 2015, management classified such properties as held-for-sale since the carrying amount of those properties will be recovered principally through a sale transaction. The properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification. In January 2017, the sale of such properties to a third party materialized. As a result, the Bank recognized gain from the sale amounting to P11.0 million.

13.1.2 Foreclosed Automobiles

This account consists of transportation equipment repossessed through foreclosure or dacion arrangement in lieu of payment of outstanding loan receivables and the corresponding interest from various borrowers. The Bank expects to sell these assets within one year from date of classification and it remains committed to dispose the assets through an active marketing program.

The Bank recognized a gain on disposal of foreclosed automobile amounting to P34.7 million and P62.1 million in 2016 and 2015, respectively, and presented as part of Gain on Sales of Assets in the statements of profit or loss.

13.1.3 Equity Investments in Subsidiaries

This account pertains to the total carrying amount of the Bank's interest in the shares of stock of the following SPCs which is currently being liquidated by the Bank and the process is expected to be completed in 2017 (see Note 10):

	2016	2015 (As Restated - see Note 2.2)
Niceview	**P 90,424,945**	P 89,905,445
Crescent Park	**60,723,382**	60,723,382
Eight Hills	**59,738,257**	59,738,257
Stockton	**20,985,431**	20,985,431
Happyville	**16,967,896**	16,967,896
Gold Place	**7,721,455**	7,721,455
Greatwings	**7,471,640**	7,471,640
Landview	**7,129,802**	7,129,802
Fairplace	**6,768,564**	6,768,564
Princeway	**1,706,243**	1,706,243
Top Place	**1,361,864**	1,361,864
Best Value	**163,887**	163,887
Goldpath	**-**	-
Lifeway	**-**	-
Crestview	**-**	-
	281,163,366	280,643,866
Allowance for impairment	**(6,230,675)**	(6,230,675)
	P 274,932,691	P 274,413,191

13.2 Other Resources

This account consists of:

	Note	2016	2015
Goodwill – net	13.2.1	**P 268,655,069**	P 268,655,069
Prepaid expenses	13.2.4	**143,429,563**	73,885,554
Computer software – net	13.2.2	**105,046,405**	143,467,746
Security deposits	13.2.3	**92,715,315**	90,623,877
Electronic documentary stamp		**40,547,191**	40,946,465
Miscellaneous	13.2.5	**82,548,126**	21,695,886
		732,941,669	639,274,597
Allowance for impairment		**(31,106,536)**	(31,106,536)
		P 701,835,133	P 608,168,061

13.2.1 Goodwill

The carrying amount of Goodwill as of December 31, 2016 and 2015 is shown below.

Cost	P 338,461,579
Allowance for impairment	(69,806,510)
	P 268,655,069

The Bank recognized goodwill arising from its acquisition of the net assets of another bank from which the Bank had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of the Bank. Goodwill is subject to annual impairment testing and whenever there is an indication of impairment.

In 2016 and 2015, the Bank engaged a third party consultant to perform an independent impairment testing of goodwill. On the basis of the report of the third party consultant dated January 30, 2017 and January 15, 2016, with valuation date as of the end of 2016 and 2015, respectively, the Bank has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no additional impairment loss is required to be recognized in 2016 and 2015.

13.2.2 Computer Software

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of five to ten years. The carrying amount of Computer software as of December 31 is shown below.

	2016	2015
Cost	**P 339,695,710**	P 318,292,995
Accumulated amortization	**(234,649,305)**	(174,825,249)
	P 105,046,405	P 143,467,746

A reconciliation of the carrying amounts of computer software at the beginning and end of 2016 and 2015 is shown below.

	2016	2015
Balance at the beginning of year	**P 143,467,746**	P 147,765,450
Additions	**21,402,714**	54,326,090
Reclassification	**94,258**	-
Amortization charges for the year	**(59,918,313)**	(57,241,743)
Disposal	**-**	(1,382,051)
Balance at end of year	**P 105,046,405**	P 143,467,746

Amortization of computer software is presented as part of Information technology under Other Operating Expenses account in the statements of profit or loss (see Note 19.2).

13.2.3 Security Deposits

Security deposits include refundable deposits and advance rentals for the lease of various Bank branches from several parties, including deposits with utility companies.

13.2.4 Prepaid Expense

Prepaid expense include unexpired portion of property and other non-life insurance and prepaid system maintenance.

13.2.5 Miscellaneous

Miscellaneous include advance rentals, rejected check and other clearing items and creditable withholding tax.

14. DEPOSIT LIABILITIES

This account consists of the following deposits:

	2016	2015
Time	**P 61,805,014,906**	P 44,205,768,722
Savings	**23,395,238,936**	26,035,409,774
Demand	**9,560,461,555**	9,733,627,702
	P 94,760,715,397	P 79,974,806,198

The maturity profile of the Bank's deposit liabilities is as follows (see also Note 23.4):

	2016	2015
Within one year	**P 90,490,865,729**	P 78,721,139,567
Beyond one year	**4,269,849,668**	1,253,666,631
	P 94,760,715,397	P 79,974,806,198

Deposit liabilities are in the form of savings, demand and time deposits with annual interest rates of 1.375% to 4.75% both in 2016 and 2015.

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.00%. 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 P7,916.0 million and P6,338.0 million, respectively (see Note 7).

15. BILLS PAYABLE

This account pertains to the Bank's borrowed funds and other borrowings from RCBC, RCBC Capital Corporation, a related party under common ownership (see Note 23.3), and the BSP. Bills payable has a maturity of one to five days in 2016 and 2015. The Bank has no outstanding bills payable as of December 31, 2016 and 2015.

Interbank bills payable which are overnight borrowings are charged with annual interest rate of 2.53% to 2.56% in 2016 and 2015. Interest expense on bills payable amounted to P20.9 million and P3.2 million in 2016 and 2015, respectively, as presented in the statements of profit or loss.

None of the Bank's assets pledged as security for these borrowings.

16. MANAGER'S CHECK PAYABLE

This account pertains to the aggregate amount of outstanding checks drawn by the Bank upon itself as of the end of each reporting period.

17. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of accruals for:

	2016	2015
Litigation costs	**P 291,590,452**	P 264,090,452
Interests	**219,863,090**	139,597,688
Utilities and rent	**171,858,491**	151,038,612
Income and other taxes	**138,316,432**	127,770,921
PDIC fees	**84,595,827**	74,811,754
Advertising costs	**30,099,373**	42,222,600
Repairs and maintenance	**13,071,137**	17,355,277
Other expenses	**89,964,890**	111,838,214
	P 1,039,359,692	P 928,725,518

Other expenses pertain to accrual for professional fees, utilities, security, janitorial services and other expenses.

18. OTHER LIABILITIES

This account consists of:

	Note	2016	2015 (As Restated - see Note 2.2)
Accounts payable		**P 1,720,692,830**	P 1,559,123,577
Post-employment defined benefit obligation	21.2	**177,996,491**	135,326,428
Payment orders		**23,551,995**	12,535,781
Sundry credits		**5,069,656**	12,216,364
Miscellaneous		**126,711,407**	106,984,659
		P 2,054,022,379	P 1,826,186,809

Accounts payable is mainly comprised of outstanding short-term payables to various third party vendors for purchases of goods and services used in operations including payable to contractors for the Bank's on-going construction works for its premises.

Miscellaneous liabilities mainly pertain to dormant manager's check payables and other deferred credits.

19. OTHER INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

19.1 Other Income

	Notes	2016	2015 (As Restated - see Note 2.2)
Income from trust business	24	**P 51,740,452**	P 54,344,949
Trading gains – net	8.1	**14,273,941**	25,182,464
Miscellaneous		**3,872,191**	4,054,831
		P 69,886,584	P 83,582,244

19.2 Miscellaneous Expenses

	Notes	2016	2015
Communication		**P 129,949,945**	P 135,034,929
Information and technology	13.2.2	**114,756,064**	93,983,008
Rent on equipment		**108,247,254**	89,557,398
Professional and management fees		**92,573,940**	190,222,951
Fuel and lubricant		**92,547,021**	109,289,388
Corporate activities		**88,825,236**	115,154,370
Advertisement		**54,532,912**	68,962,275
Supervision and examination		**45,988,185**	38,985,251
Stationary and supplies		**38,206,648**	42,553,593
Repairs and maintenance		**29,315,249**	45,461,570
Sundry credits		**28,663,659**	24,778,969
Entertainment, amusement and recreation		**24,293,450**	30,968,223
Commission		**18,094,698**	21,162,310
Foreign currency losses – net		**4,463,819**	1,700,675
Miscellaneous	21.2	**7,172,984**	26,671,281
		P 877,631,064	P 1,034,486,191

20. EQUITY AND CAPITAL MANAGEMENT

20.1 Capital Stock

Capital stock as of December 31, 2016 and 2015 consists of:

	Shares	Amount
Common stock – P100 par value		
Authorized – 50,000,000 shares		
Issued and outstanding	**30,872,163**	**P 3,087,216,300**

As of December 31, 2016 and 2015, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

20.2 Surplus

There is no dividend declaration for both 2016 and 2015.

20.3 Revaluation Reserves

Revaluation reserves pertain only to the accumulated remeasurements of post-employment defined benefit plan (see Note 21.2).

20.4 Capital Management

(a) Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

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

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Bank to maintain at all times the following:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
- Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows, subject to deductions as defined in relevant regulations:

(i) Common Equity Tier 1 Capital includes the following:

- paid-up common stock;
- common stock dividends distributable;
- additional paid-in capital;
- deposit for common stock subscription;
- retained earnings;
- undivided profits;
- other comprehensive income from net unrealized gains/losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(ii) AT1 Capital includes:

- instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;

- additional paid-in capital resulting from issuance of AT1 capital;
- deposit for subscription to AT1 instruments; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(iii) Tier 2 Capital includes:

- instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- deposit for subscription of Tier 2 capital;
- appraisal increment reserve on bank premises, as authorized by the Monetary Board;
- general loan loss provisions; and,
- minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

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

The Bank's regulatory capital position as of December 31 is presented as follows:

	2016	2015
Tier 1 Capital	**P 8,981,737,602**	P 7,984,565,483
Tier 2 Capital	**529,885,716**	449,885,716
Total Regulatory Qualifying Capital	**P 9,511,623,318**	P 8,434,451,199
Total Risk-Weighted Assets	**P 70,746,637,959**	P 62,265,255,539
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**13.44%**	13.55%
Total Tier 1 expressed as percentage of total risk-weighted assets	**12.70%**	12.82%

The above capital ratios comply with the related BSP prescribed ratios.

(b) Capital Allocation

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

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

(c) Minimum Capital Requirement

Under existing BSP regulation, thrift banks with head office in the National Capital Region are required to comply with the minimum capital requirement of P2.0 billion.

The Bank has complied with the above minimum capital requirement at the end of each reporting period.

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

Expenses recognized for employee salaries and other employee benefits are presented below.

	2016	2015
Short-term employee benefits	**P 1,117,172,979**	P 980,283,056
Post-employment defined benefit plan	**64,664,291**	62,996,195
	P 1,181,837,270	P 1,043,279,251

21.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Bank's Trust Department covering all regular full-time employees. The Trust Department manages the fund in coordination with the Bank's RMD who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 55 with a minimum of 20 years of credited service and late retirement after age 60, both subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 150% 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 post-employment 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 post-employment defined benefit obligation as of December 31, 2016 and 2015, reported as part of Other Liabilities in the statements of financial position (see Note 18), is determined as follows:

	2016	2015
Present value of obligation	**P 696,592,344**	P 676,303,972
Fair value of plan assets	**518,595,853**	540,977,544
	P 177,996,491	P 135,326,428

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

	2016	2015
Balance at beginning of year	**P 676,303,972**	P 586,053,767
Current service cost	**64,664,291**	62,996,195
Interest expense	**34,153,351**	27,571,461
Remeasurement – actuarial losses (gains) arising from:		
Experience adjustments	**(22,355,918)**	61,970,938
Changes in financial assumptions	**(9,574,095)**	(17,683,093)
Changes in demographic assumptions	**-**	(21,589,300)
Benefits paid	**(46,599,257)**	(23,015,996)
Balance at end of year	**P 696,592,344**	P 676,303,972

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

	2016	2015
Balance at beginning of year	**P 540,977,544**	P 483,152,894
Interest income	**26,142,735**	24,670,385
Return on plan assets (excluding amounts included in net interest)	**(1,925,169)**	(11,656,659)
Benefits paid	**(46,599,257)**	(23,015,996)
Contributions to the plan	**-**	67,826,920
Balance at end of year	**P 518,595,853**	P 540,977,544

Actual returns on plan assets were P24.2 million in 2016 and P13.0 million in 2015.

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

	2016		2015	
Cash and cash equivalents	**P**	**44,443,665**	P	126,021,199
Loans and other receivables		**14,935,560**		3,351,116
Equity securities:				
Retail and manufacturing		**132,812,398**		103,477,581
Mutual funds/Unit Investment Trust Fund (UITF)		**18,306,434**		16,639,953
Debt securities:				
Corporate bonds		**236,116,692**		218,110,000
Philippine government bonds		**71,981,104**		73,000,000
		308,097,796		291,110,000
Others (including real properties)		**-**		377,695
	P	**518,595,853**	P	540,977,544

The fair values of the above equity securities and government and corporate bonds are determined based on quoted market prices in active market (classified as Level 1 of the fair value hierarchy), while the fair value of mutual funds (classified as Level 2 of the fair value hierarchy) are generally measured based on the net asset value of the investment comprising the fund. The fair value of real estate properties do not have quoted prices and have been determined based on professional appraisals that is classified as Level 3 of the fair value hierarchy.

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	
Reported in profit or loss:				
Current service cost	**P**	**64,664,291**	P	62,996,195
Net interest expense		**8,010,616**		2,901,076
	P	**72,674,907**	P	65,897,271
Reported in other comprehensive loss (income):				
Actuarial losses (gains) arising from changes in:				
Experience adjustments	**(P**	**22,355,918)**	P	61,970,938
Financial assumptions	**(**	**9,574,095)**	(	17,683,093)
Demographic assumptions		**-**	(	21,589,300)
Return on plan assets (excluding amounts included in net interest expense)		**1,925,169**		11,656,659
	(P	**30,004,844)**	P	34,355,204

The net interest expense is included as part of Miscellaneous account under Other Operating Expenses in the statements of profit or loss (see Note 19.2).

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

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

	2016	2015
Discount rates	**5.38%**	5.05%
Expected rate of salary increases	**5.00%**	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual after retiring at the Bank's normal retiring age of 60 is based on the 1994 Group Annuity Mortality table, set back six years for 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 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 Rate Risks

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

Currently, the plan assets are significantly invested in cash and cash equivalents, debt securities, equity securities, and mutual and UITF. Due to the long-term nature of the plan obligation, a level of continuing investments in equity securities is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during 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 below.

(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 Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2016			
Discount rate	**+/- 1%**	**(P 27,058,528)**	**(P 66,381,733)**
Salary growth rate	**+/- 1%**	**23,434,063**	**75,004,876**
December 31, 2015			
Discount rate	+/- 1%	(P 66,381,733)	P 78,243,369
Salary growth rate	+/- 1%	75,004,876	(65,052,818)

The 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 defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to ensure 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 debt and equity instruments with sound fundamentals that are readily convertible to cash 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.

A larger portion of the plan assets as of December 31, 2016 and 2015 consists of cash and cash equivalents, debt securities and equity securities. The Bank believes that equity securities offer the best returns over the long term with an acceptable level of risk. Equity securities are invested in reputable listed corporations in the Philippines.

While no significant change in asset allocation are expected in the next reporting period, the trustee may make changes anytime to respond to environmental changes to ensure keeping alignment to the Bank's retirement plan strategies.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P178.0 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 15 to 20 years' time when a significant number of employees is expected to retire.

As of December 31, 2016 and 2015, the maturity profile of undiscounted expected benefit payments from the plan follows:

	2016	2015
Less than one year	**P 17,211,854**	P 40,957,468
More than one year to five years	**86,729,271**	235,659,785
More than five years to ten years	**218,104,497**	359,940,782
More than 10 years to 15 years	**667,833,312**	631,728,262
More than 15 years to 20 years	**1,303,629,084**	848,081,002
More than 20 years	**7,730,815,018**	1,402,232,294
	P 10,024,323,036	P 3,518,599,593

The weighted average duration of the defined benefit obligation at the end of the reporting period is 6.4 years.

The Bank expects to contribute P72.8 million to the retirement plan in 2017.

22. TAXES

22.1 Current and Deferred Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST). The Bank's liability for GRT and DST is based on the related regulations issued by the authorities.

Tax expense account presented in the statements of profit or loss include the corporate income tax discussed in the succeeding sections, and final tax paid at the applicable rates of 20.0% and 7.5%, which represent the final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax (RCIT) rate applicable is 30%. Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future regular income tax liability for the next three consecutive years. In addition, any net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years.

Effective May 2004, under RA No. 9294, the income derived by the FCDU from foreign currency transactions with nonresidents, offshore banking units (OBUs), local commercial banks including branches of foreign banks is tax-exempt, while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax. Interest income on deposits with other FCDUs and OBUs is subject to 7.5% final tax.

The components of current tax expense (income) reported in the statements of profit or loss for the years ended December 31 are as follows:

	2016	2015
Current tax expense:		
RCIT at 30% – RBU	**P 130,148,362**	P 118,437,653
Final tax at 20%, 10% and 7.5%	**(9,161,714)**	38,103,169
RCIT at 30% – FCDU	**282,286**	151,959
	121,268,934	156,692,781
Deferred tax income relating to origination of temporary differences	**(91,768,136)**	(652,466,729)
	P 29,500,798	(P 495,773,948)

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

	2016	2015 (As Restated - see Note 2.2)
Tax on pretax profit at 30%	**P 291,672,150**	P 226,114,538
Adjustment for income subjected to lower income tax rates	**(60,992,382)**	(34,455,276)
Tax effects of:		
Non-taxable income	**(309,260,683)**	(249,038,862)
Recognition of previously unrecognized deferred tax assets	**(69,202,414)**	(549,213,355)
Unrecognized deferred tax assets	**96,843,701**	75,167,060
Non-deductible interest expense	**17,322,116**	25,437,861
Other non-deductible expenses	**63,118,310**	10,214,086
Tax expense (income)	**P 29,500,798**	(P 495,773,948)

In 2016 and 2015, the Bank recognized deferred tax assets on its allowances for impairment losses as management believes and estimates that future taxable profits will be available to allow such deferred tax asset to be recovered.

	Statements of Financial Position		**Profit or Loss**	
	2016	2015	**2016**	2015
Allowance for impairment:				
Loans and other receivables	**P 620,769,305**	P 528,710,689	**(P 92,058,616)**	P 528,710,689
Investment properties	**67,802,974**	104,710,261	**(48,757,195)**	104,710,261
Assets held-for-sale and disposal group	**55,662,586**	19,045,779	**49,047,675**	19,045,779
Net Deferred Tax Asset	**P 744,234,865**	P 652,466,729		
Deferred Tax Income			**(P 91,768,136)**	(P 652,466,729)

For other temporary differences, the Bank did not recognize their corresponding deferred tax assets since management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from these temporary differences can be utilized.

Shown below are the temporary differences as of December 31 for which no deferred tax assets were recognized.

	2016		2015	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment:				
Loans and other receivables	**P 123,672,595**	**P 37,101,778**	P 99,138,798	P 29,741,639
Assets held-for-sale and disposal group	**131,535,914**	**39,460,774**	131,535,916	39,460,775
Other resources	**100,913,046**	**30,273,914**	100,913,046	30,273,914
Trading and investment securities	**60,097,191**	**18,029,157**	60,097,191	18,029,157
Provisions for lawsuits	**264,090,452**	**79,227,136**	264,090,452	79,227,136
Post-employment defined obligation	**177,996,491**	**53,398,947**	135,326,428	40,597,928
Unamortized past service cost	**17,488,955**	**5,246,687**	20,242,757	6,072,827
	P 875,794,644	**P 262,738,393**	P 811,344,588	P 243,403,376

In 2016 and 2015, the Bank claimed itemized deductions.

22.2 Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011

The BIR issued RR No. 15-2010 and RR No. 19-2011 which requires certain information on taxes to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure as part of the basic financial statements prepared in accordance with PFRS; it is neither a requird disclosure under the SEC rules and regulations covering the form and content of financial statements under the Securities Regulation Code Rule 68.

The Bank, however, decided to present the required tax information require by the BIR as a supplemental schedule filed separately from the basic financial statements.

23. RELATED PARTY TRANSACTIONS

The Bank's related parties include PMMIC, its Parent Company, subsidiaries and entities under common ownership by RCBC, key management personnel and others as described below.

A summary of the Bank's transactions and outstanding balances of such transactions with its related parties as of and for the years ended December 31, 2016 and 2015 is presented below.

Related Party Category	Notes	2016 Amount of Transaction	2016 Outstanding Balance	2015 Amount of Transaction	2015 Outstanding Balance
Parent Company - RCBC					
Due from other banks	23.2	**P 751,578,310**	**P 1,402,802,276**	P 2,563,728,697	P 860,263,753
Bills payable	23.3	**51,845,254,039**	**-**	3,183,527,000	-
Deposit liabilities	23.4	**(304,899)**	**161,316,326**	(58,227,744)	161,621,225
Income –					
Interest on due from other banks	23.2	**1,378,429**	**-**	2,511,656	-
Expenses:					
Interest on deposit liabilities	23.4	**290,454**	**-**	271,106	-
Interest on bills payable	23.3	**7,832,589**	**-**	508,536	-
Management fees and audit fees	23.6	**730,000**	**-**	700,00	-
Occupancy expense	23.6	**134,604,887**	**-**	128,717,084	-
Related Party Under Common Ownership					
Interbank loans receivable	23.3	**-**	**-**	5,632,000,000	-
Bills payable	23.3	**12,455,000,000**	**-**	1,709,000,000	-
Deposit liabilities	23.4	**(2,723,659)**	**33,774,952**	(13,567,063)	37,648,280
Related Party Under Common Ownership					
Income –					
Interest on interbank loans receivable	23.3	**-**	**-**	597,118	-
Expenses:					
Interest on deposit liabilities	23.4	**51,122**	**-**	64,147	-
Interest on bills payable	23.3	**1,718,699**	**-**	304,747	-
Subsidiaries					
Deposit liabilities	23.4	**13,767,527**	**137,356,794**	41,557,087	124,629,853
Expenses –					
Interest on deposit liabilities	23.4	**407,930**	**-**	397,586	-
Retirement Fund					
Plan assets	23.5	**(20,839,453)**	**519,760,395**	(57,824,650)	540,977,544
Other Related Parties					
Deposit liabilities	23.4	**9,500,210**	**51,810,984**	237,024,406	83,440,944
Expenses –					
Interest on deposit liabilities	23.4	**296,153**	**-**	240,770	-
Key Management Personnel					
Compensation	23.7	**104,845,607**	**14,713,000**	110,159,255	13,565,384
Loans receivable	23.1	**1,651,651**	**3,031,144**	2,197,141	3,023,317
Deposit liabilities	23.4	**113,444**	**6,632,898**	(127,139)	1,754,266
Income –					
Interest on loans	23.1	**272,803**	**-**	4,219,378	-
Expense –					
Interest on deposit liabilities	23.4	**33,290**	**-**	10,074	-

None of the Bank's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

23.1 Directors, Officers, Shareholders and Related Interest (DOSRI)

In the ordinary course of business, the Bank has loans and other transactions with certain DOSRI, the Bank's key management and RCBC as shown below. Under existing policies of the Bank, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under existing BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the individual's deposit and the investment book value in the Bank. In aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the loan portfolio of the Bank.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts and new DOSRI loans, other credit accommodations and guarantees granted as of December 31, 2016 (nil for 2015):

Total outstanding DOSRI Loans (all secured)	P	2,286,021
Interest costs		233,623
Percentage of DOSRI to total loans		0.005%
Percentage of unsecured DOSRI to total DOSRI loans		-

There are no past due and non-accruing DOSRI loans outstanding as of December 31, 2016 and 2015; as such, no impairment loss has been recognized in 2016 and 2015.

As of December 31, 2016 and 2015, the Bank is in compliance with the existing BSP regulations on DOSRI.

23.2 Bank Deposits and Short-term Placements

The Bank has deposit accounts and short-term placements with RCBC which are presented as part of Due from Other Banks account in the statements of financial position (see Note 7.3). These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors.

23.3 Bills Payable and Interbank Loans to Related Parties

The Bank, in the normal course of business, transacts with RCBC and certain related parties under common ownership composed partly of receivables and payables which are presented as part of Loans and Receivable and Bills Payable accounts, respectively, in the statements of financial position (see Notes 9 and 15).

Interbank loans receivable pertain to loans granted which have maturities of less than one month, and bears interest rates at the same range with those granted to other resident banks.

Bills payable pertains to overnight borrowings which are charged with interest rates same as the prevailing range of interests for borrowed funds from other local banks (see Note 15).

As of December 31, 2016 and 2015, there were no outstanding balances of interbank loans receivables from related parties. Also, the Bank has no outstanding bills payable as of December 31, 2016 and 2015.

23.4 Deposit Liabilities

Certain related parties maintain deposit accounts and placements with the Bank, which are included as part of Deposit Liabilities account in the statements of financial position (see Note 14). Such accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors.

23.5 Transactions with the Retirement Fund

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2016 and 2015, as well as the amounts contributed by the Bank, are shown in Note 21.2.

The total deposits of the retirement fund to the Bank amount to P44.5 million and P126.0 million as of December 31, 2016 and 2015, respectively. The related interest expenses recognized by the Bank from these deposits amounted to P1.7 million in 2016 and P1.8 million in 2015. The Bank also has no investments in Rizal Equity Fund, a UITF product of RCBC Trust and Investments Group, as of December 31, 2016 and 2015.

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

23.6 Expenses Paid to RCBC

The Bank pays to RCBC for its share of the management and professional fees which was initially paid by the latter. Also, the Bank is charged of occupancy expense for its share in the expenses incurred for services and operations performed by RCBC for its subsidiaries. Billing is made on a monthly basis and is paid by the Bank through issuance of manager's check.

In October 2013, RCBC and the Bank entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P6.4 million. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5^{th} year of the lease term. The lease is for a period for five years which shall end in October 2018 (see Note 26.1).

23.7 Key Management Compensation

Compensation provided to the Bank's key management personnel follows:

		2016		2015
Short-term employee benefits	**P**	**90,132,607**	P	96,593,871
Post-employment defined benefits		**14,713,000**		13,565,384
	P	**104,845,607**	P	110,159,255

24. TRUST OPERATIONS

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacity for clients and beneficiaries are not reflected in the statements of financial position since these are not resources of the Bank. The total resources held by the Bank's Trust Department amounted to P23.5 billion and P21.1 billion as of December 31, 2016 and 2015, respectively (see Note 26.2).

In connection with the trust operations of the Bank, government securities are regularly purchased by the Bank with a total face value of P249.0 million and P245.0 million as of December 31, 2016 and 2015, respectively, and are deposited with the BSP. These government securities deposits with BSP are presented as part of Due from BSP in the statements of financial position (see Note 7.2).

Income from trust operations amounted to P51.7 million and P54.3 million for the years ended December 31, 2016 and 2015, respectively, and is shown as part of Other Operating Income in the statements of profit or loss (see Note 19.1). In compliance with existing BSP regulations, 10% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve from trust business equals 20% of the Bank's regulatory capital. The appropriation is shown as Reserve for Trust Business in the statements of changes in equity.

25. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Bank:

	2016	2015 (As Restated - see Note 2.2)
Return on average equity:		
Net profit / Average total equity accounts	**10.02%**	14.24%
Return on average resources:		
Net profit / Average total resources	**1.00%**	1.46%
Net interest margin:		
Net interest income / Average interest earning resources	**5.30%**	5.37%
Debt-to-equity ratio:		
Total liabilities / Total equity	**9.33 : 1**	8.75 : 1

26. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

26.1 Lease Commitments – Bank as a Lessee

The Bank leases the premises of its Head Office (see Note 23.6) and branches from one to 20 years terms, renewable under certain terms and conditions. Rental under these lease contracts amounting to P262.7 million in 2016 and P241.5 million in 2015, is included as part of Occupancy account in the statements of profit or loss.

As of December 31, future minimum rentals payable under these non-cancellable operating leases follow:

	2016	2015
Within one year	**P 248,498,713**	P 218,331,474
More than one year but not more than five years	**353,652,740**	446,555,404
More than five years	**35,240,016**	37,012,180
	P 637,391,469	P 701,899,058

26.2 Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not reflected in the financial statements. Management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

The following is a summary of various contingencies and commitments arising from off-statement of financial position items of the Bank:

	Note	**2016**	2015
Trust department accounts	24	**P 23,543,804,631**	P21,122,849,576
Spot exchange contracts sold		**149,160,000**	178,828,000
Late deposits/payments received		**121,445,833**	34,266,459
Performance standby letters of credit		**58,625,500**	66,303,889
Outward bills for collection		**2,122,051**	1,506,442
Items held as collateral		**71,296**	66,320
Items held for safekeeping		**8,499**	14,884