



PEOPLE
+ PROJECTS
= PROGRESS



2015 ANNUAL REPORT



WHAT IS A BANK?

Safe keeper of money and pooler of savings.
Provider of finance.
Transaction processor and intermediary.
Customer service organization to companies and individual customers.
Investor in securities.
Shareholder-return engine.
Tool for government-mandated social policy.

A public vessel with a social mandate for financial inclusion and empowerment.

DBP is all these and more.

As the country's premier development financial institution, DBP is at the forefront of nation-building, tasked with providing banking services principally to service the medium and long term needs of agricultural and industrial enterprises, particularly in the countryside and preferably for small and medium scale enterprises.

More than reporting the Bank's financial performance for the year, our 2015 Annual Report aims to chronicle the story behind the numbers. Our DBP bankers and their customers create not just the financial results but the projects that serve as engine of growth, catalyst for progress. Not just a snapshot of a year, but a continuing history of our Bank's role in the prosperity and the rise in living standards of our people due to our financing of the key sectors of the Philippine economy.

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WHO WE ARE



By 2020, a regionally-recognized development financial institution, serving as a catalyst for a progressive and more prosperous Philippines.



To raise the level of competitiveness of the economy for sustainable growth.
To support infrastructure development, responsible entrepreneurship, efficient social services and protection of the environment.
To promote and maintain the highest standards of service and corporate governance among its customer constituencies.

WIDE AND EXTENSIVE COVERAGE IN KEY AREAS IN THE PHILIPPINES

SUBSIDIARIES:

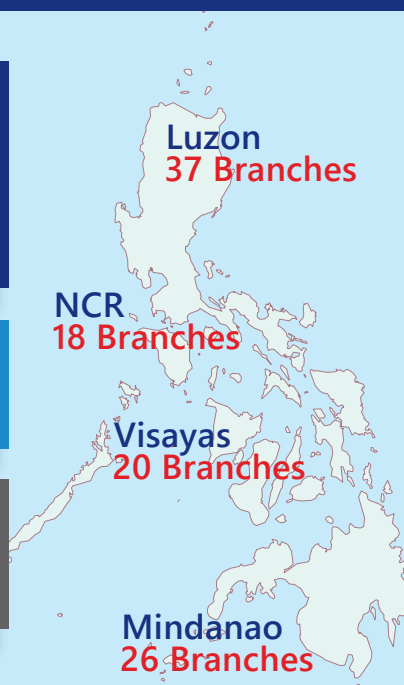
DBP Leasing Corporation, 100%
DBP Data Center, Inc., 100%
DBP Management Corp., 100%
Al-Amanah Islamic Investment Bank of the Phils., 99.88%

AFFILIATES:

LGU Guarantee Corporation, 47.94%
DBP Service Corporation, 28.04%

JOINT VENTURE:

DBP Insurance Brokerage, Inc., 40%
DBP Daiwa Securities, 23.33%



BRANCHES & ATM NETWORK (AS OF 31 DEC 2015)

Branches
101
On-Site ATMs
135
Off-Site ATMs
293



MESSAGE FROM HIS EXCELLENCY

I congratulate the Development Bank of the Philippines for another sterling year, as you present your 2015 Annual Report in fulfillment of your mandate as the country's premier development financial institution.

The DBP has done much to uplift our country's financial standing. As one of the select agencies that remit at least a billion pesos in dividends to the national treasury, you have expanded the public coffers and improved our fiscal position. Beyond this impressive achievement, however, is the significance of these figures to our Republic: The loans, grants, technical counsel, logistic support, and invaluable, motivation and inspiration you provide help spur the advancement of our people.

I trust that, with your expected merger with the Land Bank of the Philippines, your institution will now put even greater focus on your core

mandates: Fill in the funding gap for the country's infrastructure; foster an environment where micro, small, and medium enterprises can thrive; and improve the delivery of crucial services towards more sustainable, frictionless local markets that lead to inclusive growth.

With courage, fortitude, and dignity — values that have distinguished your agency through periods of challenge — I trust that you will pursue your duties with greater passion, lend financial muscle to critical industries and sectors of the economy, and become a transformational, dynamic, and strategic catalyst for national development.

Congratulations and I wish you the best in your endeavors.

BENIGNO S. AQUINO III
President
Republic of the Philippines
Manila, June, 2016



REPORT TO THE PRESIDENT

Three years ago, we set out on a “Back to Basics” strategy which simply meant that one, we wanted more “predictable” and recurring income flows by doing more lending, and because we are a bank, should continue to be DBP’s bread and butter; second, focus on identified key sectors; third, be more customer-centric; fourth, improve support systems; fifth, reward our people based on performance; and most importantly, operate under good governance standards. Our financial results over these years validate our strategy despite increased competition and thinning margins.

As we review our business performance, we are proud of our accomplishments and numbers that we celebrate as notable Successes and Breakthroughs:

- 2015 Net Income increased despite the difficult market conditions. The prospects of an interest rate hike after a prolonged low interest rate environment has proven to be a most difficult environment to operate in. On our Treasury side, this has tempered our trading appetite and has severely limited the gains that we can make from this business. On our lending side, the slim margins from cut-throat pricing continue to put pressure to book new loans and maximize profitability on our existing relationships. On the funding side, our big institutional deposit clients are running ahead of expectations of rising interest rates, demanding higher rates and pushing up our funding cost.
- Revenues increased by P1.9-billion led by Interest on Loans, our core business, a recurring and sustainable source that will carry the Bank through market volatilities.
- Our Bank has grown in size, with Total Assets crossing the half-trillion mark at P504-billion at the end of 2015, crossing the half-Trillion mark! The good news is that this has been largely fueled by loans growth.
- Deposits are posting double digit growth of 10.4% in 2015, and especially CASA which is growing at an even faster pace of 12.2 % Year-on-Year. Most significantly, our “True” CASA – taking into account only Savings and Current Accounts – has already crossed the P100-billion mark – at P104-billion ADB at the end of 2015.
- Branch expansion is proceeding as planned – and we have just crossed our Breakthrough 100th when we opened our Tandag branch in Surigao del Norte, one of five that we opened in 2015, and then our 101st branch near the end of last year in Cabarroguis, Quirino, and a record target for 15 new branches and extension offices in 2016.
- We are in the midst of the biggest investment in technology in DBP’s history – as we started implementing new systems to put in place our Technology infrastructure to secure our Bank for the future, including a new Integrated Core Banking System that will be operational in mid-2017 and Card and Cash Management Systems are scheduled to go live by the fourth quarter of 2016 that will allow us to bring to our public sector constituencies the same cutting edge banking technologies that our commercial bank competitors have provided to their private sector clients and at the same time, will give our Bank much-needed competitive advantages.
- We have supported our investments in People and Technology with Process Streamlining in our back office and credit management operations that will enable us to move faster and smarter.

- Internally, we are into the third-year of our Organizational Development plan coupled with strong measures of Good Corporate Governance that aim not just to strengthen our institution but ensure our survival and continued relevance as our country’s policy implementing bank for economic development. Transforming our organization and culture are not easy tasks. The challenge is to create the motivation and inspiration to change and we find that these two imperatives– DBP’s Survival and Continued Relevance should serve as our beacons of light into DBP’s future.

We believe that the answers will come from the three words that make up our institution’s brand and what it implies for our vision for DBP for the next few years and beyond: **Development, Bank and Philippines.**

DEVELOPMENT

DBP serves a very specific purpose – as contained in our development mandate – of improving the lives and well-being of our countrymen and ensuring that this Development is Broad-based, Inclusive and Sustainable. How do we make sure that our efforts impact the biggest number at the fastest pace and sustained over a long period into the future? The challenges encompass the provision of the infrastructure that our country sorely needs as launching pad for its economic take-off to the creation of jobs and economic opportunities for our people.

BANK

We do not forget that fundamentally, we are a bank with primary deposit taking and lending functions. What this implies is that we have to be the best at these basic deposit and lending functions, to build our Bank, to be as competitive as any other, and to provide a compelling reason for our customers to choose us over other banks. Most importantly for us, as a state-owned bank, we have to continuously strive to surpass the performance yardsticks against which the market measures all other banks – Return on Assets, Return on Equity, and Profitability, while at the same time meeting the expectations of our stakeholders in the Public Sector. Our Vision is that by the end of 2020, five years from today, our goal should be to become a trillion peso bank (as a stand-alone bank) with minimum earnings of P10-billion.

PHILIPPINES

Lastly, since we carry our country’s name in our brand, as the so-called “flag carrier” in our country’s Financial Services sector, we always need to remember that “What is good for the Philippines is good for DBP” and conversely, “DBP’s Success translates to our country’s success” - that our Bank’s fate and future are intertwined with that of our country’s. Thus, when we evaluate projects and activities in which we may invest our financial resources and time, we must ensure that we have the best interest of our country in mind. This is what we mean in our new slogan: “Banking for the country.”

Our purpose and mission for our country are bigger than any of us. This is what differentiates us from all other banks, and what will continually inspire all of us and drive our daily work in DBP.


GIL A. BUENAVENTURA
President and CEO

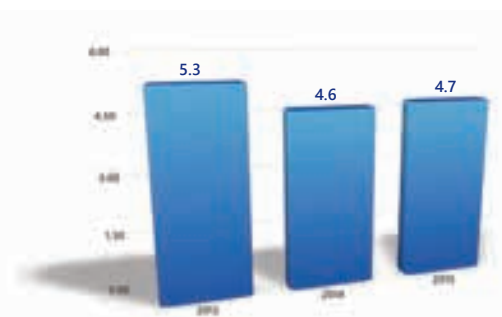

JOSE A. NUÑEZ, JR.
Chairman

FINANCIAL HIGHLIGHTS

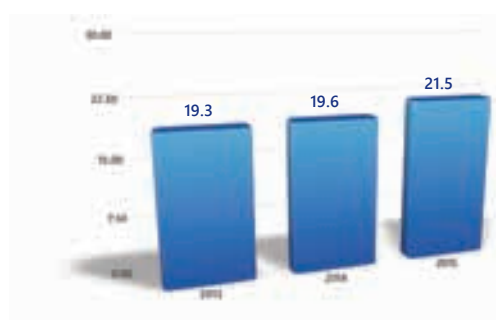
Key Financial Ratios

	2013	2014	2015
Net Interest Margin	2.15%	2.34%	2.11%
Return on Ave. Equity	12.71%	11.01%	11.67%
Return on Ave. Assets	1.36%	1.03%	0.97%
Capital to Risk Assets	24.33%	20.91%	16.65%

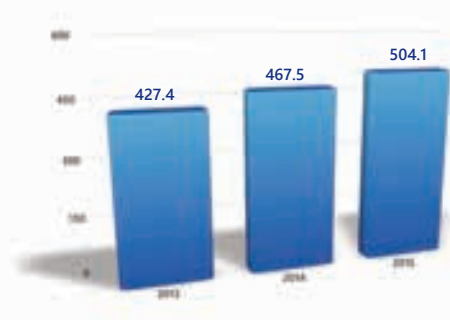
SUSTAINED PROFITABILITY Net Income (In Billion Pesos)



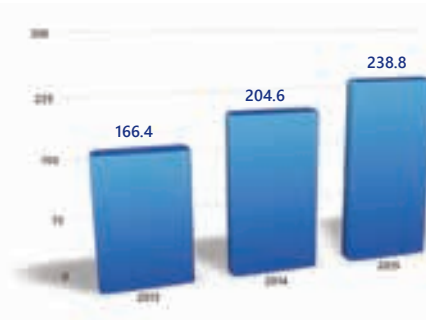
21.5-BILLION REVENUES IN 2015 (In Billion Pesos)



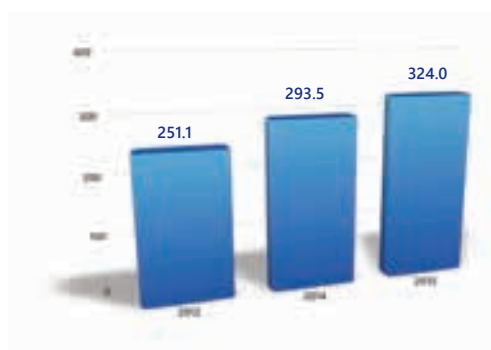
HALF-TRILLION IN ASSETS (In Billion Pesos)



STEADY LOANS GROWTH (In Billion Pesos)



SUBSTANTIAL DEPOSITS INCREASE (In Billion Pesos)



DEPOSITS ADB GROWTH LED BY P19-BILLION CASA INCREASE (In Billion Pesos)



AWARDS AND RECOGNITIONS

Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Outstanding Development Project Award

- DBP's Cebu Bulk Water Project won in the Local Economic Development Category. The public-private partnership project is a new model for bulk water supply initiatives for local economic development. This ADFIAP Award recognizes DBP's commitment in successfully promoting and developing local economic development initiatives in the country.
- DBP's Good Governance Program won in the Corporate Governance Category. DBP's Good Governance Program reinforces core ethical values critical to corporate governance such as integrity, excellence, teamwork, service to others and love for the Filipino, values which dictate how the Bank deals with stakeholders. This ADFIAP Award recognizes DBP's efforts in successfully integrating a good governance program as core to its business operations and mandate.
- DBP also received a Plaque of Merit in recognition of its "DBP Bankability Enhancement for SET-UP Technopreneurs (DBP-BEST)" and "Inclusive Lending for Aspiring Women (ILAW) Entrepreneurs" projects for their significant contributions to the nation's socioeconomic, technological and human development efforts. DBP-BEST provides small and medium enterprises (SMEs) access to finance and technical assistance. ILAW supports women-owned, managed, and/or controlled SMEs.

Proficiency Status in the Performance Governance System

DBP also received its second Silver Governance Trailblazer Award coming on the heels of its first Silver Governance Trailblazer Award after attaining the Compliance Status.

Outstanding Credit Surety Fund (CSF) Partner Award from the Bangko Sentral ng Pilipinas for the DBP-managed Industrial Guarantee and Loan Fund (IGLF)

The Outstanding CSF Partner Award recognizes stakeholders that provide BSP great support in its implementation of the CSF. The IGLF won the award based on the amount of contribution, payment of support to other CSF activities and payment of counterpart contributions.

Award of Merit for DBP's "Portraits of Progress" coffee table book from the International Association of Business Communicators' Philippine Quill Awards

The award recognized the DBP coffee table book as the best in corporate writing under the Communication Skills division.

Citation for DBP's invaluable support to PhilHealth premium collection services

The Bank has been an accredited collecting agent of PhilHealth for the past 16 years. In 2009, DBP became the first accredited bank to collect Philhealth premium contributions from overseas Filipino workers.

Karlsruhe Sustainable Finance Awards

DBP won in the "Outstanding Sustainable Project Financing" category, highlighting the Bank's strong leadership in sustainable development financing. This marks DBP's second recognition from the Global Sustainable Finance Network for its contribution to the field of sustainable finance.

The Bank's winning entries included the P1.1-billion Cebu Bulk Water Supply Project that will produce 35 million liters of water daily to homes in central and northern Cebu, and the Palawan State University Forest project which is a beneficiary of the DBP Forest Program.



OPERATIONAL HIGHLIGHTS

DEVELOPMENT BANKING

To intensify development financing, DBP extended assistance to key priority areas such as infrastructure and logistics, environment, social services, and micro, small and medium enterprises (MSMEs).

INFRASTRUCTURE AND LOGISTICS

Power. The Financing Utilities for Sustainable Energy Development (FUSED) Program was established as DBP's platform for development intervention in the power sector, particularly in power generation and power distribution. The aim is to increase access to electricity services so as to contribute to the nation's effort in poverty reduction and inclusive growth. Subsumed in the program is the Countryside Electrification Financing Program, which was implemented in 2012.

The program is expected to fund P40-billion of the estimated investment requirement for power generation and power distribution in the Philippine Energy Plan for 2012 to 2030. Total loan approvals in 2015 under the FUSED Program amounted to P27.01-billion while the Bank's outstanding portfolio is P17.84-billion.

Cognizant of the challenges faced by the country in terms of power generation, the Bank approved nine projects in 2015 amounting to P15.72-billion with an aggregate installed capacity of 1,494.56 MW (both for conventional and renewable energy projects) with the bulk of the capacity in the Luzon grid. Currently, the Bank's total loan portfolio in power generation projects stands at P16.58-billion.

On conventional energy, the Bank approved one liquefied natural gas power project and one coal-fired power project amounting to P6.95-billion. These projects are expected to contribute 1,375 MW capacity to partly address the power supply requirements of the Luzon grid in base load and mid-merit load capacities. These projects will also provide employment to at least 4,500 people during construction period and 403 personnel during plant operation.

On renewable energy, the Bank granted loans to seven renewable energy projects amounting to P8.77-billion. These projects are expected to contribute 119.56 MW

capacity that will result to an estimated fuel oil savings of 390,090.13 barrels. Consequently, this will translate to foreign exchange savings on oil imports of US\$21.96-million per year. These projects are likewise expected to contribute to the global effort of reducing greenhouse gas emission estimated at 93,866.17 tons of CO₂ per annum. These projects will also provide employment to at least 1,200 people during construction period and 63 personnel during plant operation.

The total loan portfolio on 32 power distribution utilities now stands at P2.83-billion which includes 29 Electric Cooperative (EC) projects. In 2015, the Bank extended term loans to 18 ECs amounting to P1.72-billion.

Water. The Bank's total loan portfolio in the water supply sector increased by 19%, from P13.28-billion in 2014 to P15.82-billion in 2015. Sixty-one accounts including 51 Water Districts, were also funded through the: World Bank - Urban Water and Sanitation Program; Japan International Cooperative Agency (JICA) - Philippine Water Revolving Fund (PWRF); and DBP funds.

To support the water program, the Bank maintains linkages with major stakeholders in the water supply sector, such as the Department of Interior and Local Government and the Local Water Utilities Administration. The Bank also became an active member of the Philippine Development Forum Sub-Working Group on Water Supply and Sanitation in 2015.

The Financing Program for Water Sector (FPWS), the Water for Every Resident (WATER) Program aims to help increase access to water services to help achieve poverty reduction and inclusive growth. Of the total target disbursement of P20-billion by 2025, the program has funded 59 projects, totalling P11.3-billion in loan approvals and P5.09-billion in loan releases using JICA-PWRF and DBP funds.

Transportation and Logistics. The Connecting Rural Urban Intermodal Systems Efficiently (CRUISE) Program serves as the Bank's umbrella program that supports its strategic thrust on connectivity infrastructure in the transportation, logistics, and tourism sectors, including related information technology and climate change adaptation/risk mitigation requirements. The program utilizes various sources of funds to finance investments in



DBP supports investments in green energy.

the transportation and logistics sectors. The JICA-Logistics Infrastructure Development Project (LIDP) is the dedicated credit facility that finances investments in the sea transport, land transport, and logistics sectors.

In 2015, P2.5-billion was released under the LIDP. This brought the JICA-LIDP total loan approvals to P10.6-billion with total loan releases of P9.06-billion. There are 63 approved accounts/ projects, 42 of which are Local Government Units (LGUs) and 21 from the private sector.

The following DBP-assisted projects contributed to the overall improvement of logistical infrastructure in the country:

- Acquisition/construction of 13 RORO vessels and 9 cargo vessels with average passenger capacity ranging from 250 to 320 and cargo vehicle accommodation of approximately up to 40 trucks or cars, plying different routes. Other maritime infrastructures improvement projects included four ports development with 15 berths and a shipbuilding facility with a 3,000-ton capacity slipway. Notably, two of the four ports are situated in Leyte.
- Three cold storage facilities with total capacity of 6,529 m² while four bulk terminals were improved/constructed with a total capacity of 21, 479 m³.
- Increase in packaging, transport and distribution facilities to seven projects with total area of 29,421.9 m², majority of which are public markets in Visayas and Mindanao.
- Road projects constructed for the following: 197.2-kilometer major expressway connecting different cities and municipalities in Central Luzon towards the northern part of Luzon; LGU roads and access roads with a total length of 207.7 lane kilometers in both municipal and provincial levels. A total of 1,102.06 lane kms. of roads, majority of which are located in municipalities in the Visayas and Mindanao, have been maintained through the procurement of heavy equipment under the LIDP.

ENVIRONMENT

The Green Financing Program is the umbrella program that supports the Bank's strategic thrust on environmental protection and the country's green growth strategy. The program was designed primarily to assist key sectors, industries and LGUs with environmental management, as well as compliance with environmental laws and regulations. These are to be achieved primarily by extending both

financial and technical assistance to projects in adopting earth-friendly processes and technologies, such as air and water pollution prevention and control, sanitation, proper solid and hazardous waste management, resource conservation, resource efficiency, cleaner production and climate change adaptation and mitigation and disaster risk reduction measures.

The Environmental Development Project (EDP) is a policy-based lending facility that provides long-term funds through DBP to support investments in industrial pollution prevention and control, solid and hazardous waste management, new and renewable energy, and water supply and sanitation. This ¥24.846-billion (approximately P10-billion) loan from JICA is available from 2009 to 2016 but was extended up to January 2017 to accommodate EDP-approved accounts subject for loan release or disbursement in 2016.

In 2015, one project under the industrial pollution prevention and control sector of the EDP was approved, with a total loan amount of P32-million. Total releases of the sector for the year amounted to P1.073-billion for four accounts.

EDP releases for solid waste management projects amounted to P238.09-million for two accounts.

Total loan approvals for new and renewable energy projects increased from P6.32-billion in 2014 to P10.73-billion in 2015, or an equivalent increase of 70.7% or P4.46-billion. There were eight new accounts, increasing the number of existing accounts to 25.

Total loan releases for new and renewable energy projects as of 2015 amounted to P887.23-million. This includes power distribution and transmission projects that connect to new and renewable energy plants. The projects are expected to increase power capacity of the grid by 60.53 MW, and reduce systems loss by 113,165,000 kilowatt-hours over a five-year period, which translates to P565-million savings on barrels of fuel oil equivalent of 835,324 barrels, foreign exchange savings of US\$22.76-million, and carbon dioxide emission reduction of 112,896 tons.

The ¥7.6-billion PWRP has been fully disbursed. As of 2015, 18 projects were approved amounting to P4.22-billion, with total loan releases of P3.33-billion.

Overall, the recorded developmental and environmental contributions of these PWRP projects included additional water supply of 28,595,434 m³/year, 352 kilometers of pipeline network rehabilitated/expanded, 64,033 additional connections, and 6,668,633.49 m³ of water conserved.



DBP advocates the use of earth-friendly processes and technologies.

SOCIAL SERVICES

Health Care. The year 2015 marked the closing of the Credit for Better Health Care Project which was funded by the Asian Development Bank and implemented in 2009. The project, aimed at improving the country's maternal and child health, closed with accumulated total disbursements of more than P844-million awarded to 10 hospital projects nationwide.

The gains earned in the implementation of this project will be continued under the Sustainable Health Care Investment Program (SHCIP) Phase 2 which will extend assistance to the country's health sector for another five years. Total portfolio to date is P6.6-billion.

Shelter. Ten residential real estate development projects were evaluated in 2015, equivalent to P889-million in investments for residential development projects. Sixteen other residential real estate projects, with an estimated aggregate amount of P3.5-billion, is expected to scale up the Bank's contribution to the shelter sector as these projects involve 12 LGU-led housing projects and can potentially generate 2,891 shelter units. Total portfolio to date is P13.1-billion.

As a member of the Joint Monitoring and Evaluation Committee led by the Cooperative Development Authority, the Bank was also instrumental in the passing of the Housing Cooperative Lending Guidelines approved by the Housing and Urban Development Coordinating Council. This affiliation effectively links various housing cooperatives in the Philippines to available financing institutions to help mainstream the housing cooperative practice.

Education. In 2015, the Bank rationalized its program for education, effectively integrating all education projects under the DBP Educational Fund Program (DEFP). The Bank's total loan portfolio under the program reached P1.88-billion comprising 95 projects that cover the financing of school building construction, purchase of equipment, working capital requirements of schools, and student loan assistance.

MICRO, SMALL AND MEDIUM ENTERPRISES

In 2015, the Bank revised its credit guidelines on retail lending for micro and small enterprises (MSMEs) to cover start-up projects with limited financial information. With this modification, the Bank generated a 14% increase in its total MSME loan portfolio, from P6.67-billion in 2014 to P7.6-billion. Of the total, the contribution of SME retail lending amounted to P5.19-billion while wholesale MSME lending amounted to P2.41-billion.

MSME retail lending grew by 27% or P1.1-billion from the P4.09-billion in 2014 to P5.19-billion in 2015.

The Sustainable Enterprises for Economic Development

(SEED) Program is the Bank's umbrella program for MSMEs. Accomplishments under the program are as follows:

- The Inclusive Lending for Aspiring Women Entrepreneurs (ILAW) Program is a special credit facility that provides support to the development and growth of business endeavours of women entrepreneurs. In 2015, the Bank provided loans to 15 women entrepreneurs with loan approvals of P223.45-million and loan releases of P104.88-million. The program, together with the DBP Bankability Enhancement for SETUP Technopreneurs program, received a Merit Award during the 2015 ADFIAP Awards.
- The Credit Surety Fund (CSF) Program was developed by the Bangko Sentral ng Pilipinas to help address the requirements for collateral faced by MSMEs when obtaining loans from banks. The Bank participates as a contributor to the fund, trustee bank, and lender to participating cooperatives and its qualified members.

DBP has participated in all established CSFs, which now stands at 45 nationwide. In 2015, DBP participated in the eight CSFs launched, namely: Zambales, Cagayan, Nueva Ecija, Santiago City, Malaybalay City, Valencia City, Parañaque City, and Cabanatuan City CSFs.

As of 2015, the Bank has allocated P89.25-million in contributions to the program and has subsequently released a total of P49.3-million to various CSFs launched. DBP has also approved the amount of P663.41-million to 1,087 program beneficiaries. Of this amount, P605.32-million has been released.

- DBP entered into a Memorandum of Agreement (MOA) with the Overseas Workers Welfare Administration for the Overseas Filipino Workers Reintegration Program. The program aims to provide economic opportunities to OFWs and their families. The Bank also entered into a MOA with the Management Association of the Philippines for the Educated Marginalized Entrepreneurs Resource Generation (EMERGE) Program. This program aims to provide financial, counselling, and advisory assistance to the entrepreneurial poor, as well as financial assistance to the equity requirement of borrowing EMERGE beneficiaries.

The Bank also participated in consultative meetings in the Senate and House of Representatives concerning the following laws: Republic Act No. 10644 or the "Go Negosyo Act;" and Republic Act No. 10744 or the "Credit Surety Fund Cooperative Act of 2015." Together with the Philippine Stock Exchange, Inc., the Bank organized/conducted the DBP-PSE listing forum for emerging enterprises titled "Beyond Capital Raising, A Step Toward Global Competitiveness" which was attended by 170 participants from various organizations/associations, companies, and government agencies.



Better health care for all is a priority of DBP's social services initiatives.

AGRIBUSINESS

The Sustainable Agribusiness Financing Program (SAFP) provides credit for agribusiness projects engaged in the production, harvesting, processing, and marketing of crops, poultry, livestock, and fishery. Total approvals for agricultural loans extended to 62 borrowers in 2015 amounted to P1.32-billion. Approved projects support the Bank's compliance to the Agri-Agra law. Evaluated projects are expected to increase agricultural production and meet the demand for food products for consumption.

The SAFP-Dairy is a sub-loan program under the SAFP specifically designed to assist the National Dairy Authority (NDA) in attaining its roadmap's main objective, which is to gain a significant share in the Ready to Drink (RTD) milk market. The Bank's Management Committee approved the program in June 2015 and its operating policy guidelines were circularized in September 2015. Six dairy projects were evaluated by NDA and DBP, in the total amount of P28.85-million, from which one project amounting to P9-million was approved and released to finance additional 50 pregnant heifers.

The Tree Plantation Financing Program (TPFP) provides credit assistance for the expansion, harvesting, maintenance, and protection of existing tree plantations in qualified private and public land areas. Of the three projects amounting to P450-million evaluated, one project amounting to P5-million was approved and released for said project. This project is expected to develop 160 hectares by planting 281,600 trees.

CORPORATE SOCIAL RESPONSIBILITY

DBP offers non-lending programs in order to share the benefits of its continued financial success with disadvantaged sectors of society.

- The DBP Forest Program (DFP) is an initiative to protect the country's watershed areas through the planting of high value forest and fruit trees and other useful species in public land areas. The Bank believes that the key to protecting and improving the environment is helping to establish forests, thereby preventing soil and coastal erosion, conserving water, providing habitat to wildlife, spawning ground for fishes and crustaceans, and creating rural livelihood opportunities. Both upland and mangrove projects are being developed in partnership with peoples organizations (POs), LGUs, state universities and colleges, and other government agencies.

Since its implementation in 2005, the Bank has approved 44 forest projects with total funding of P138.65-million. In 2015, 113 program beneficiaries were added bringing the total to 5,960 beneficiaries of the projects. The additional 137.9 hectares planted contributed to the increase in the total planted area of 5,539 hectares. The estimated total number of trees planted is 5 million.

The DFP Committee approved a program for the validation of existing DFP projects aimed at determining the actual status of projects established in different parts of the country. A Memorandum of Agreement was signed between DBP and DENR for the validation of these projects. In line with this, the DBP Forest Team conducted monitoring and evaluation of 12 forest projects.

In 2015, the DFP garnered an international award in Germany called the Karlsruhe Award for Outstanding Sustainable Project Financing for its accomplishments in protecting the environment and providing livelihood to communities. Project beneficiaries are now deriving additional earnings from fruit harvests and processing, latex harvests, abaca production, increased fish catch in mangrove areas, ecotourism, and other revenue generating activities resulting from the projects.

- The DBP Endowment for Education Program (DEEP) is on its 8th year of implementation with 39 Partner Schools all over the country. For 2015, 420 students were qualified to benefit from the program, which brought total recipients to over 3,500 scholars from indigent families. Total releases for the program is more than P170-million for 2015.

The DBP Board approved DEEP's second tranche, with an allocation of P500-million, for implementation starting 2018. DEEP's second tranche will continue DBP's support to the Sustainable Development Goals (SDGs) and Philippine Development Plan in the eradication of extreme poverty and hunger and overall upliftment of families.

OTHER PROGRAMS AND PROJECTS

The Bank teamed up with Cebuana Lhuillier, the country's biggest micro-financial company, for stronger international remittance to enable more Filipinos, particularly unbanked and under-banked OFWs, to send money to their beneficiaries. This venture aims to provide Filipinos with needed financial services and easier access to money remittance channels. Filipinos abroad can remit money via any of DBP's international remittance tie-ups and have their beneficiaries collect the money from any of Cebuana Lhuillier's more than 1,700 branches.

The Bank launched two Ease of Doing Business (EODB) reforms on starting a business and payment of taxes. The present set-up requires 16 steps and 34 days. However, with these reforms, the new set-up will require only six steps and eight days. Through the Bank's online banking facility, enterprises will no longer be required a minimum average daily balance for payroll-related payments to PhilHealth and Pag-IBIG. The Bank, together with other government agencies, signed memoranda of agreement and understanding for these reforms.



DBP provides support for the growth of small businesses.

BRANCH BANKING

As the sector operating the branch network for customer relationship management and transaction processing, the Branch Banking Sector (BBS) has the main responsibility over deposits and development loans to the public sector.

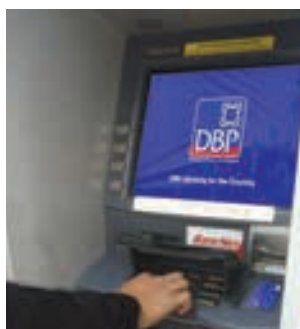
As a revenue-generating business sector, BBS is tasked with deposits generation that funds the Bank's asset side of loans and investments, as well as loans generation focused on its mandate sectors of Local Government Units (LGUs), Electric Cooperatives and Water Districts. BBS thus, bears the major share of responsibility in fulfilling the Bank's developmental mission.

The Bank remains focused on its breakthrough goals under its Performance Governance System which is to expand access to loans by Local Government Units, Water Districts and Electric Cooperatives. BBS exceeded its targets as loan approvals reached P20.95-billion in 2015, vs. the target of P20-billion. Combined with the P25.84-billion in 2014, the Bank is already near its three-year target from 2014 thru 2016 of P60-billion in loans to these sectors.

BRANCH & ATM NETWORK

In 2015, BBS added five new branches, to bring the network total to 101 – a broader presence that translated to significant gains in customer acquisition and service delivery. Additionally, the Bank added 88 ATMs to increase its network to a total of 428 nationwide.

To further improve its branch network, BBS has accelerated the re-branding and renovation of existing branches not just to strengthen DBP's brand image and enhance the aesthetic appeal of its brick-and-mortar facilities but more importantly, to improve customers' overall banking experience.



Making DBP's banking services more accessible is the Bank's growing network of ATMs.

DEPOSITS

The branches delivered a 17.72% growth in total deposits and 30% growth in volume of Current and Savings Accounts (CASA), which was chiefly responsible for delivering a net interest margin of 2.11% in 2015.

Low Cost deposits (Checking and Savings Accounts or CASA) ADB registered double digit growths in excess of 20% over the past two years: 22.99% in 2013, 25.02% in 2014. In 2015 CASA ADB registered another 24.46% growth to reach a peak of P97.47-billion in ADB.

The Low Cost-to-High Cost Deposit ratio reached its highest proportion of 36.58% at the end of 2015 significantly increasing its share over the past three years since 2013. This signaled a substantial shift to low cost funding in DBP's deposit base as the focus on CASA in the Bank's Performance Monitoring bore fruit as also reflected in its breaching the P100-billion mark to reach P110.11-billion in period end level.

High Cost or Time deposits also went up by 7.09%, slower compared to previous year's 42.93% as the Bank became more sensitive to the interest rates that it offered. The Bank nevertheless grew the ADB for High Cost Deposit from P107.76-billion in 2013 to P154-billion in 2014 and P164.94-billion in 2015 without unreasonably purchasing these deposits at unreasonably high rates.

DEVELOPMENTAL LOANS

BBS developmental loans focused on the LGUs, WDs, ECs, Hospital and Schools reached P37.1-billion in 2015, an increase of nearly P9-billion for a 30.23% growth.

Salary Loans started the year at P3.8-billion portfolio and reached P4.9-billion at the end of 2015 or an increase of P1-billion, representing 26.73% increase in portfolio level – notwithstanding the more than 65% attrition rate characteristic of this product or a pay down rate of more than 5% a month.



With the opening of new branches, DBP's broader presence has translated to significant gains in customer acquisition and service delivery.

CORPORATE BANKING

DBP Corporate Banking Sector's (CBS) total loan portfolio including Unquoted Debt Securities Classified as Loans (UDSCL) and Held To Maturity (HTM) as of December 31, 2015 registered a 13% growth at P129.48-billion from last year's outstanding balance of P114.93-billion. The loan portfolio is composed of 79% loans to borrower, 12% UDSCL, and 8% HTM. CBS contributed 61% of the total loan portfolio of the Bank for 2015.

Developmental loans stood at P102.46-billion, a 12% increase from P91.37-billion for the same period last year vis-à-vis the target growth rate of 7.5%. The sector's developmental loans accounted for 79% or P101.77-billion of the total loan portfolio, 38% of which or P34.8-billion went to Infrastructure and Logistics. Commercial loans registered 21% of P26.94-billion.

The sector generated a gross income of P5.66-billion, or 98% of the P5.78-billion gross income target for 2015. Net income registered P4.87-billion, a 103% realization rate vis-à-vis the P4.72-billion target for 2015.

The sector's marketing activities focused on the developmental priority areas of the Bank, resulting to a significant build-up of pipeline projects. Among the notable projects approved during the year are:

A. INFRASTRUCTURE AND LOGISTICS

- Participation of up to P780-million in the term loan facility to partially finance the setting-up of a 50MWp solar power plant in Tarlac City. The project is expected to augment the energy supply in the Luzon Grid by up to 50MWp, providing reliable and adequate electricity. The project is also expected to stimulate business activity that would support tax collection and royalty for the improvement of social services.
- Financing of up to the peso equivalent of USD6.73-million for the construction of a 50MW solar power plant in Toledo City, Cebu. The project will contribute to the government's thrust of achieving energy independence through the development of indigenous and renewable energy resources. The project will augment energy supply in the Visayas Grid by 48.960 Megawatt Alternate Current (MWAC), with total installed capacity of 60MWp, primarily providing reliable and adequate electricity.
- P2.10-billion term loan to finance the construction of a solar power project in Burgos, Ilocos Norte. This project supports infrastructure development particularly power generation. The project will augment power supply in the Luzon Grid, which has a projected deficit of 184 MW by 2015 and 339 MW by 2017 based on DOE Luzon Supply-Demand Outlook 2013-2020. The proposed project will have an installed capacity of 650 MW and will generate 883GWh (for the initial 400MW installed capacity only) of electricity per annum, which will partly address the peak power requirements of the Luzon Grid.
- Participation of up to USD100-million in a syndicated term loan facility to partially finance the development construction of a single 660MW unit supercritical coal-fired power generation facility and associated facilities in Mariveles, Bataan. The project aims to support the government's thrust of infrastructure development particularly

power generation, and will contribute an average additional gross energy generation of 4,542 GWh of electricity annually.

- Participation of up to USD75-million peso denominated syndicated term loan facility to partially finance the design development and construction of Phase 1 (the first 400MW) of the 650MW Combined Power Plant. The proposed project will have an installed capacity of 650MW and will generate 883GWh (for the initial 400MW installed capacity only) of electricity per annum which will partly address the peak power requirements of the Luzon Grid.

REAL ESTATE

- P1.50-billion term loan to partially refinance the development of a plaza complex (Phase 1) in Pasay City as well as finance the company's existing short-term loans and general corporate purposes.
- P639-million term loan to finance the construction of a hotel in Puerto Princesa City, Palawan.

Approvals were also obtained for the following new commercial loan accounts:

- P200-million omnibus credit line to augment working capital. The distribution and trading of agricultural products help to address the food security problems and essentially assist in achieving the country's Millenium Development Goals of eradicating extreme poverty and hunger in the country.
- Clean omnibus line facility of up to P500-million to finance working capital requirements.
- Clean Omnibus Credit Line Facility of up to P200-million (or its USD equivalent). Available via 1) Revolving Promissory Note Line (RPNL) with a Sub-Limit of P200-million; 2) Domestic Letter of Credit with Trust Receipts and a Sub-limit of P100-million and 3) Import Letter of Credit with Trust Receipt and a sub-limit of P100-million Exceptions to Policy RPNL with a Sub-limit of P200-million, Domestic Letter of Credit with Trust Receipts with sub-limit of P100-million, Import Letter of Credit with Trust Receipts with sub-limit of P100-million.

The Bank also actively participated in the following corporate fund raising transactions:

- Participation of up to P2-billion in the P8.5-billion seven-year fixed rate term loan facility. Proceeds shall be used to redeem the company's outstanding preferred share to fund other general corporate purposes.
- Participation of up to P1.5-billion in the P5-billion fixed rate Bonds Facility with oversubscription option of up to P4-billion. The proceeds will be used to refinance existing debt obligations of the issuer and its subsidiaries.
- Participation of up to P3-billion in the P100-billion fixed rate SEC-registered Bonds to refinance existing debt obligations and to partially finance investment capital expenditures.
- Purchase of up to P2-billion Fixed Rated Corporate Notes. Proceeds from the facility will

be used to finance the acquisition of real estate properties project development, refinance existing indebtedness and fund other general corporate purposes.

- Purchase of Corporate Notes up to P1-billion, proceeds of which will be used for general funding requirements related to its real estate business.

MIDDLE MARKET

The Middle Market Group (MMG) generated a P5.09-billion incremental portfolio in 2015 from various industries such as shipping, socialized housing, hospitality and restaurant, and construction and financing. Total outstanding portfolio for the year amounted to P13.13-billion. A major DBP-funded project is the construction/importations of Starlite Ferries, Inc.'s Passenger/Cargo RORO Vessel. The project was funded through a P306-million term loan.

MV Starlite Pioneer, a brand new RORO vessel built by Kegoya Dock Co. Ltd., had its maiden voyage on December 23, 2015 from Roxas, Mindoro to Caticlan, Aklan.

About P291.47-million had been released from the P300-million approved loan. Loan proceeds were used to fully pay the vessel from the ship builder. The balance is expected to be availed until January 2016 to cover other operating expenses.

The vessel is the country's first highly modernized mid-sized passenger vessel fleet, especially designed for Philippine rough waters, and built with safety features that adhere to international standards, and the reliable and efficient performance demanded by the market.

PROJECT IMPACT

Economic Boost. Classed by Nippon Kaiji Kyokai, a nonprofit society dedicated to ensuring safety of life and property at sea, the Japanese-built, brand new vessel is appraised to be 99% reliable. Passengers can expect that the ship will depart and arrive on time. This means faster, safer, more cost-efficient means of transporting people and goods. This will consequently have a trickle-down effect and lead to more robust trade and profitable enterprises.

Environment-sensitive. The new and modern RORO vessel is highly efficient; consuming 20% less fuel compared to older models, thus lessening pollution-contributing emissions. As a result, costs that may be incurred for environmental repair are prevented.

Improved Tourism. Being a tropical and archipelagic nation makes our country a tourist hotspot. As advantageous as that is, getting around can be a challenge. These new RORO vessels however, present an easier and safer mode of transportation for local and foreign tourists alike. In addition, this move towards the modernization of the marine transport system may also give way to the lifting of international travel advisories to the Philippines, thus increasing and encouraging both local and foreign tourists to explore the country.

Advanced Passenger Safety and Welfare. The introduction of newer passenger vessels with safety design and features helps promote not just passengers' over all welfare, but more importantly, the preservation of people's lives.

TREASURY

Amid a very challenging market environment triggered by global economic slowdown, China's surprise devaluation, and the market's sporadic outlook on the timing of Federal Operating Market Committee's policy rate hike, the DBP Treasury Group still far exceeded its target income of P5.86-billion by 28.67% to P7.54-billion at the end of 2015. This accomplishment is attributed to Treasury Group's proactive management and diversification of the Bank's investment portfolio, coupled with prudence and great coordination among departments that comprise the group—Fixed Income, Foreign Exchange, Asset and Liability Management (ALM), and Treasury Marketing.

Treasury operations also supported the Bank's Branch Banking Sector (BBS) in rolling out foreign exchange dealership in the branches, and in their campaigns for private deposit generation. Correspondingly, it helped build up the Bank's assets to over P500-billion through its ALM and Treasury Marketing Departments.

The DBP Treasury Group pushed further the Bank's support of the National Government in its 2015 Domestic Debt Swap,



The DBP-funded MV Starlite Pioneer had its maiden voyage in December 2015 from Roxas, Mindoro to Caticlan, Aklan.

by bringing in P113-billion total offers, or 27.51% of the total submissions for the exchange of eligible bonds and 16.32% of total submission for new subscription of the new benchmark bonds. A significant 20.8% of the accepted final offers came through DBP.

Also initiated during the year was the upgrading to the new Integrated Treasury Management System. Ongoing initiatives include the review of business processes and formulation of a Strategic Roadmap towards making the business more responsive to the changes in the regulatory environment while improving internal control procedures.

CAPITAL MARKETS

Through its Capital Markets Department, the Bank assumed lead roles in some of the largest capital raising transactions of the year:

DBP was one of the Joint Deal Managers (JDMs) in the eighth Liability Management (LM) transaction of the Bureau of the Treasury. Awarded “Deal of the Year” by the prestigious *Asset* magazine, this transaction with a final deal size of P264.04-billion, resulted in the establishment of new 10-year and 25-year benchmarks while generating interest savings for the Republic. DBP accounted for more than 27% of the total submitted offers for the LM and more than 20% of the final awards given by the Republic, the highest among the eight JDMs.

DBP acted as Co-Lead Arranger for project loan facilities amounting to P23.3-billion in favor of GMR Megawide Cebu Airport Corporation for the partial financing of capital expenditures and other costs relating to the Mactan-Cebu International Airport Project. The project, which involves the construction of a new world-class passenger terminal and the rehabilitation of the airport's existing terminal, is a major component of the Public-Private Partnership program of the national government.

DBP acted as Joint Lead Manager and majority lender, accounting for almost 50% of the total amount, for a P7.5-billion fixed-rate notes issuance of Alsons Consolidated Resources, Inc. Proceeds from the notes were utilized to prepay an existing term loan and finance additional investment in power-related assets in Mindanao expected to add an additional 351 MW of generating capacity to the grid, thus providing a solution to the perennial energy problem encountered in the region.

INVESTMENT BANKING

Through its Investment Banking Department, the Bank performed lead roles in the privatization program of the National Government by providing financial advisory services for several major projects. The Investment Banking Department also complemented capital markets initiatives by arranging financing for several pioneering developmental projects of the private sector.

ADVISORY

The Bank continues to support the Government's Public-Private Partnership program (PPP), serving as transaction advisor to the Department of Transportation and Communications (DOTC) on three PPP Projects. In partnership with the International Finance Corporation (IFC), DBP advises DOTC on the Davao Sasa Port Modernization Project and the LRT Line 2 Operations and Maintenance Project. Both projects are in the late stages of tender, with several world-class companies in the pool of bidders. In 2015, DBP partnered with the Asian Development Bank

(ADB) to act as the transaction advisor to DOTC for the tender of the North-South Railway Project South Line, the largest PPP Project of the Government to date.

DBP also serves as the transaction advisor for the privatization of Intercontinental Broadcasting Corporation (IBC). In 2015, the Bank was able to obtain Presidential approval for the mode of disposition to carry out the privatization which is currently being prepared for tender.

LOAN SYNDICATION

DBP acted as the Mandated Lead Arranger of a syndicated P6.75-billion facility for Energy World Corporation. The transaction was notable for several ground breaking attributes. The transaction was not only the first successfully syndicated loan facility for a pure merchant plant, as the project it was also the pioneering Liquefied Natural Gas Power Plant in the Philippines.

REMITTANCE

DBP remains committed to provide OFWs with products and services that respond to their financial requirements. In 2015, the DBP Remittance Department handled around USD220-million in remittance volume, up 9.9% from the previous year despite the general slowdown in the industry as recorded by the BSP. Major remittance source countries are the Kingdom of Saudi Arabia, United Arab Emirates, Hong Kong, Israel, and USA. DBP receives remittance transactions from over 30 OFW host countries.

Beyond remittances, and in line with the National Government's campaign for financial inclusion and education, DBP conducted financial literacy sessions for 23,824 departing OFWs and their families, in coordination with accredited providers for pre-departure orientation seminars (PDOS), local government units (LGUs), schools, and accredited non-government organizations. More than P100-million in loans were also released to OFW entrepreneurs through DBP's MSME program.

FUND SOURCING

DBP remains committed to strengthening its partnerships with its Funders – the Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), KFW Development Bank (KFW), Asian Development Bank (ADB), and the World Bank – International Bank for Reconstruction and Development (IBRD) – in pursuing development in the priority sectors, namely: infrastructure and logistics, social services, environment, and micro, small and medium enterprises (MSMEs).

The year highlighted DBP's efforts to meet the long-term financing requirements of the Bank's borrowers through timely availments of fresh funds and re-deployment of second generation funds for the private sector, LGUs, water districts, and electric cooperatives. As of December 31, 2015, foreign-funded developmental loans covering said sectors have an outstanding balance of P24.05-billion. The Bank also continues discussions/negotiations with potential funders in sourcing funds under long-dated and competitive/fixed-priced terms, suited for project finance requirements covering infrastructure and new and renewable energy projects, among others.

TRUST BANKING

In 2015, the DBP Trust Banking Group (TBG) pursued more vigorously a business-oriented strategy with the launching of the “Unlad Pribadong Institusyong Money Market Fund.” The

Fund caters to the investment needs of private entities with conservative risk appetite and short-term investment horizon.

Also during the year, TBG obtained BSP approval for two multi-class unit investment trust funds, namely: Unlad Panimula Money Market Fund and Unlad Kabalikat Money Market Fund. These multi-class UITFs provide individuals, corporations and government entities with lower investible funds access to professional fund management, an efficient investment and monitoring process, and the potential to earn higher returns on their investments.

To strengthen the infrastructure that supports DBP's expanded trust business, TBG upgraded its automated system. TBG presides over total AUM of P46.77-billion divided into:

- Investment Management Accounts (IMA), 42.06% or P 19.67-billion;
- Trust and Other Fiduciary Accounts (TOFA), 33.68% or P 15.75-billion; and
- Unit Trust Investment Fund (UITF), 24.27% or P 11.35-billion.

Through its investment management, trusteeship and agency activities, TBG supports non-profit social development organizations, credit surety funds that help provincial cooperatives and micro small and medium enterprises gain access to bank credit and large-scale projects that avert power shortage.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

With the sustained implementation of the Bank's ISO-certified Integrated Management System (IMS), the Information and Communications Technology Group (ICTG) continued to render strategic support in promoting service quality and consumer protection. ICTG initiatives continue growing in compliance with IT Governance requirements set by regulatory agencies in 2015.

Supporting efforts to modernize the Bank's business operating models and its technology components, ICTG took the lead in planning and designing major IT changes. Last year, the Bank laid the groundwork for new breakthrough projects that include the acquisition of the following software solutions:

1. Integrated Core Banking Solution (ICBS)
2. Cash Management System
3. Card Management system
4. Check Image Clearing System (CICS)

These systems shall run on needs-based configurations under an integrated multichannel architecture powered by business analytics. The CICS project supports planned technological improvements in the settlement system for banks, as driven by the Philippine Clearing House Corporation and the BSP.

In the medium-term, these IT modernization initiatives are projected to shift client transactions from manual to electronic banking channels. Using a real-time internet banking platform, this initiative will ultimately result to better customer service and banking experience.

The Bank also introduced and/or implemented the following support strategies:

- Harmonization of customer information and data cleansing to ensure data accuracy
- Improvement of business processes such as

- streamlining of the customer on-boarding process, with corresponding change management support
- Installation / commissioning of system upgrades to improve risk management of system availability, covering Core Switch, UPS System, among others
- Migrations for infrastructure projects covering wired-connections, OS upgrade, leased-line connections among others
- Enhancement of the Disaster Recovery (DR) Site
- Upgrading of hardware facilities both on Business Continuity Plan (BCP) and DR sites
- Standardization of Process Documentation media and Bank forms, consistent with IMS requirements
- Acquisition of IT Security Solutions to further strengthen the Bank's IT Security posture
- Support for system customization/upgrades, in partnership with Process Owners and Business Units (i.e. Check Image Uploader, eGov Payment Facility, ATM-Bancnet Reconciliation Report, iHRIS, eRPICAS, etc.)
- Implementation of Quality Assurance Process for automation projects
- Introduction of improved IT service models that cover management of service agreements, handling of service requests, integrated approach to incident resolution and prevention, capacity and availability management, etc.
- Establishment of a Project Management Framework that serves as guide for the execution of a project from start to finish, to achieve predetermined objectives of scope, quality, time and cost.

Under DBP's own IT Governance Framework, development and utilization of information and communication technology can be expected starting 2016 toward improved and diversified services, consistent with the Bank's Strategy Map. On the whole, the Bank's IT modernization strategies are expected to strengthen business process communication, foster collaboration among business units towards the effective execution of IT projects, and enable efficient scaling of business lines to enhance client experience in doing business with the Bank.

HUMAN RESOURCES MANAGEMENT

TALENT ACQUISITION AND PLACEMENT

In 2015, the Bank launched two batches under the Management Associates Program (MAP). DBP's search for high potential MAP candidates extended to targeted reputable regional and national state colleges and universities across the country, offering promising career opportunities to young Filipinos driven by a passion to serve and promote countrywide development. The addition of the 8th and 9th batches under the program brought DBP's pool of MAP talents to 59 participants.

New employees totaled 237 during the year, a significant 260% increase from the 90 new appointees in 2014. These hirings also addressed the staffing requirements of five new branches in Antipolo, Kalookan, Iriga, Tandag, and Cabarroguis, while also beefing-up the Bank's Sales and Distribution Group.

SUCCESSION AND CAREER MANAGEMENT

As leadership continuity and capability building in all key and critical positions across the organization remained of utmost importance, the Bank established the success profiles of key business leadership roles to identify and develop potential successors while proactively addressing individual development plans of incumbents.

Career maps were also established to guide executives, officers and staff on the technical and behavioral competencies, and other standard requirements as they move horizontally or laterally within the organization.

LEARNING AND DEVELOPMENT INTERVENTIONS

HRMG learning and development portfolio is closely integrated with business success, job performance, leadership excellence, change and transformation. In 2015, the Bank provided an average of 5.14 training hours per employee. In-house Blended Learning and Development initiatives included on-the-job training, apprenticeship, coaching and mentoring, inter-branch exchange program, and shadowing, which served to hone talents and leaders



DBP's learning and development initiatives are founded on business success, job performance, leadership excellence, and change and transformation.

for their future roles in the organization. Roadmaps for learning and development in the four strategic areas of Sales, Credit, IT and Operations, and Leadership were designed to pave the way for internal certification. Timely and purpose-driven organizational development interventions focused on building team synergy, managing group dynamics, strengthening collaboration, and facilitating an open communication between management and employee groups.

EMPLOYEE RETENTION

In 2015, DBP recorded an overall employee retention rate of 96.70%, while successfully retaining 99.97% of its top performers, or those employees who received performance rankings of 1 (Outstanding) and 2 (Highly Commendable). Retention rate of MAP graduates was recorded at 95%, corresponding to 165 MAP graduates.

PERFORMANCE MANAGEMENT, RECOGNITION AND REWARD

DBP's institutionalized performance management system complements its strategy of recognizing and developing high potential officers and staff. In 2015, promotions and rank conferment were given to 569 officers and employees who received high performance ratings.

Consistent with the compensation philosophy of competitive pay for competitive performance, the Bank continued to implement the Performance-Based Bonus (PBB) an incentive granted commensurate to an employee's performance against agreed targets, and vis-à-vis his peers in comparable roles.

Three new Individual Excellence Awards -- the Outstanding Business Partner, Outstanding Frontliner and Best Support Employee Awards -- were launched during the year to further promote the highest standard of service and employee engagement, while promoting a culture of partnership between the business and support units.

The Bank's benefits program was likewise enhanced as coverage of maternity benefits for unmarried/single female employees was implemented under the Bank's Health Care Plan and the Magna Carta benefits for Public Health Workers.



DBP confers Excellence Awards to engage employees towards adherence to the highest standards in customer service.



The Bank's Management Associates Program ensures a steady pool of talents for chain succession at the middle management level.

EMPLOYEE ENGAGEMENT

In 2015, roundtable meetings between officers and employees and key management officials led by the President and CEO themed, "Pakikipagtulungan" was launched to facilitate a participative discussion of significant Bank issues. Participants shared with their teams insights and feedback gained from the roundtable discussion and helped ensure follow-throughs in addressing concerns/issues within their respective sector/groups. Regional townhall meetings were organized to keep employees in the branches abreast with Bank issues and developments, including updates on the DBP-LBP Merger, Compensation and Position Classification System, and other relevant human resource concerns.

The Collective Negotiation Agreement between the DBP Employees Union and the DBP Management was successfully completed, following direct and regular dialogues between the negotiating groups.

Health and Wellness

DBP sustained the implementation of an employee health and wellness program that included annual medical check-up for Bank officers and employees aged 30 and above, in addition to in-house dental, medical and optical services

Regulatory Compliance

DBP passed the special audit conducted by the Civil Service Commission.

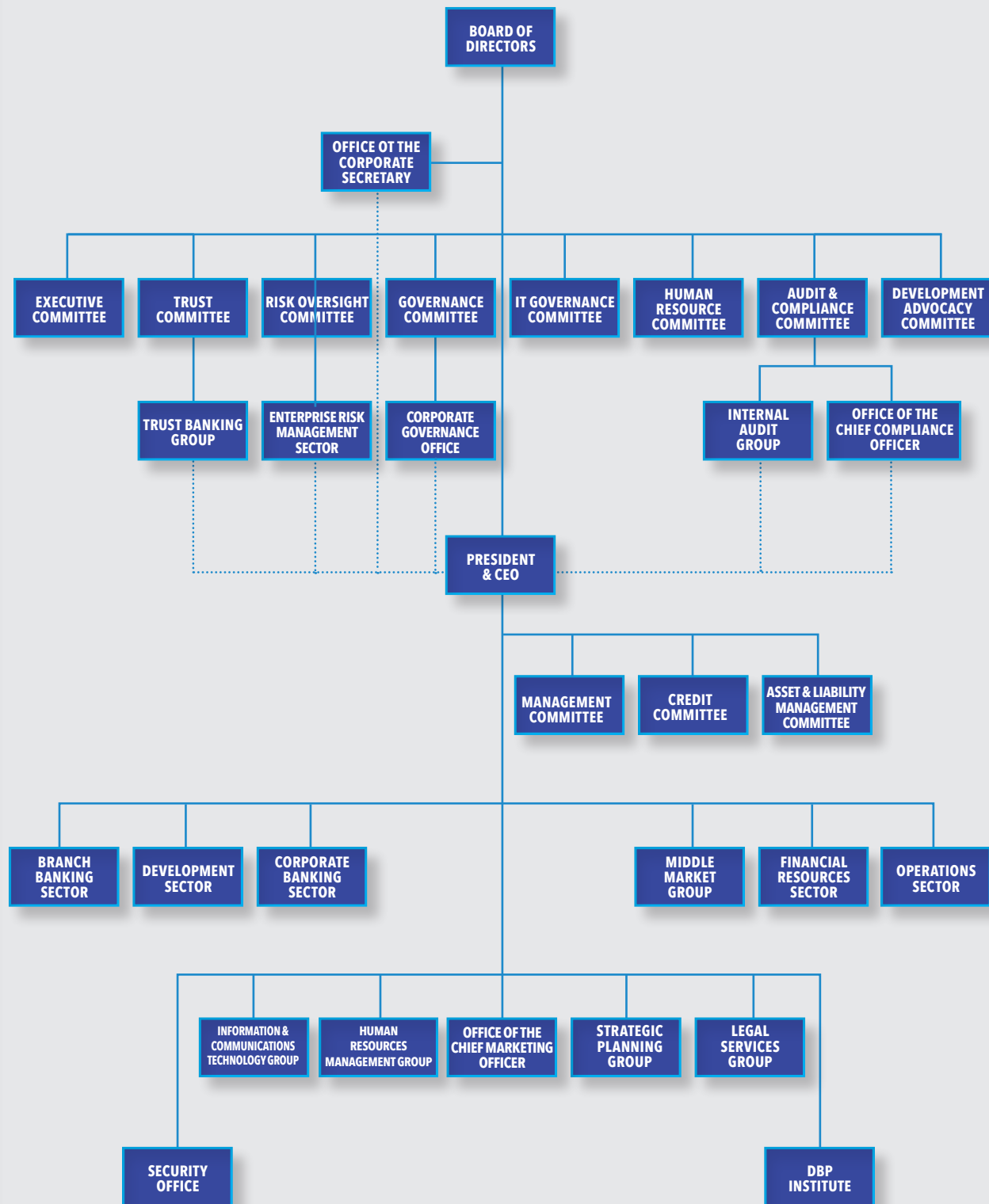
The CSC acknowledged the Bank's substantial compliance with civil service rules and regulations. The Commission also noted that no transgression of rules amounting to abuse of authority had been observed.



A Collective Negotiation Agreement was successfully forged between the DBP Management and Employees Union after a series of direct and regular dialogues.

TABLE OF ORGANIZATION

AS OF DECEMBER 2015





TARLAC SOLAR POWER FACILITY

The Tarlac Solar Power Facility (TSPF) is PetroSolar Corporation's (PSC) new pride and glory. Located within Central Technopark in Tarlac City, TSPF boasts of an expansive solar powerplant that will augment power supply in the Luzon Grid by up to 50 MW.

In support of the government's thrust of power generation infrastructure development and in response to the clamor for clean and renewable energy, the project received DBP's assistance in 2015. With a participation of up to P780-million in the P2.6-billion Term Loan facility, DBP partially financed the setting-up of the TSPF solar farm.

Aside from providing reliable and adequate electricity to households, the project is also expected to create a multiplier effect on the local economy since energy security would stimulate small businesses. In turn, small businesses would generate tax collections and royalties.

TSPF provided employment to 800-1,000 locals during the construction phase. The plant is projected to generate a total of P679.43 million in income taxes and other benefits to host communities throughout the loan period. All of these will ultimately contribute to the improvement of social services.

More than the social impact, TSPF is expected to contribute to the global effort of reducing greenhouse gas emissions in the atmosphere estimated at 33,465.81 tons of CO₂ using



the National Grid Emission Factor of 0.4541 tons CO₂ per MWh for the Luzon-Visayas Grid. By producing clean and renewable energy harnessed from the sun, the project will also help reduce CO₂ emissions in the atmosphere caused by conventional power plants.

The more important financial benefit from TSPF include the revenue generated from energy

production and the savings resulting from the cost avoidance in thermal plants. It will replace about 139,077.18 barrels of crude oil equivalent per year for the first year of operation. Based on the May 2015 average price of US\$50 per barrel, the project would result in an estimated foreign exchange savings of US\$6.95-million for the 1st year of operation.

Being not only a developmental bank, but more importantly, an environmentally-conscious one, DBP continues to do right by its mandate by financially assisting this endeavor towards the development of clean and renewable power-generation infrastructure.





ASEAGAS CORPORATION

Engineered to produce biogas from anaerobic digestion, Aseagas Corporation's biomass renewable energy plant is one of the largest of its kind in South East Asia and one of the first to have a CO₂ recovery facility.

Wholly-owned by Aboitiz Power Corporation, Aseagas was granted a P2.5-billion Corporate Notes Facility by DBP to finance the construction of its 8.8 MW biomass power plant in Batangas.

Originally, the project was intended to produce liquid biomethane, a waste-derived, storable energy source for the transport industry. It is an environmentally sound fuel that can be directly substituted for both compressed natural gas and liquefied natural gas used in gas-powered and dual-fuel vehicles, or for decentralized power generation.

However, due to the drop in oil prices starting 2014, Aseagas changed the business model to power generation under the feed-in-tariff (FIT) scheme. The FIT rate for biomass power is P6.63/KwH for 20 years.

The power plant will utilize the gas engine technology of GE Distributed Power. GE's gas engine technology ensures Aseagas' power generation facility to have high levels of efficiency, modularity, and reliability in supplying power to the Luzon grid.

Aseagas' biomass plant is strategically located beside Absolute Distillers, Inc. (ADI) with which it entered into an effluent supply agreement. ADI is majority-owned by Tanduay Distillers, Inc. and operates an alcohol distillery where pipes will be installed and connected to Aseagas' anaerobic digester and liquefier for the collection of effluent. Recycling of wastes from ADI's distillery will support the production of renewable energy by harnessing methane and carbon dioxide released during organic waste decomposition.

In terms of environmental contributions, the reclassification of waste and its reduction through landfill dumping will ensure that waste material will be collected and used in this project. Around 20,000 tons of municipal solid wastes are currently produced per day in cities throughout the Philippines, and 30% or 6,000 tons are in the form of organic waste. Additionally the extraction of waste material will reduce vermin and other carriers of disease.

Capturing methane and carbon dioxide from waste materials could make a significant contribution to tackling climate change and meeting wide environmental

objectives, such as production of renewable energy and displacing conventional fuel with renewable gas; reducing methane emissions from distilleries, solid waste dumpsites, and landfills; recycling nutrients back to land; and generating carbon credits.

This is in line with the greenhouse gas reduction objectives of the Kyoto Protocol and Republic Act 9367, otherwise known as the Bio-Fuels Act of 2006.

About Aboitiz Power Corporation

AboitizPower is the holding company for the Aboitiz Group's investments in power generation, distribution, and retail electricity services.

The company is one of the largest power producers in the Philippines with a balanced-mix portfolio of assets located across the country. It is a major producer of Cleanergy, its brand for clean and renewable energy generated from hydroelectric, geothermal, solar, and soon biomass power generation facilities. It also has various fossil-fired power plants in its generation portfolio to support the baseload and peak energy demands of the country.

The company also owns distribution utilities that operate in high-growth areas in Luzon, Visayas and Mindanao, including the second and third largest private utilities in the country.





METRO ANTIPOLO HOSPITAL & MEDICAL CENTER, INC.

On a busy portion of Marcos Highway, also known as the Marikina-Infanta Road, stands the seven-storey Metro Antipolo Hospital & Medical Center, Inc. (MAHMCI). Towering over other structures in the area, MAHMCI is the only hospital in its primary catchment area with an Acute Stroke Unit and an eight-bed ICU. A level 2, 99-bed capacity hospital, it is also the first teaching-training hospital in Antipolo City, the capital of Rizal province.

In 2015, MAHMCI was granted a P100-million loan by DBP to partially finance its acquisition of machinery and equipment. A year earlier, DBP financed the construction of MAHMCI's level 2 hospital building, which accommodates roughly 40 outpatient department clinics catering to diverse specialties of affiliated physicians.

The strategically located hospital primarily serves six of Antipolo City's 16 barangays, comprising nearly 43% of the city's total population. These include Mayamot, Mambugan, Bagong Nayon, Cupan, Sta Cruz, and San Juan which have a combined 76,736 households based on population estimates.

Apart from residents in its primary catchment area, patients come from other barangays of Antipolo City as



well as adjoining local government units such as the municipalities of Cainta, Taytay, and San Mateo in Rizal province and the cities of Pasig and Marikina in Metro Manila.

In addition to its being highly accessible, MAHMCI

has other competitive advantages such as state-of-the-art facilities and highly-trained medical and paramedical staff. It is the first hospital in Antipolo City to be installed with a leading edge 16-slice CT Scan machine and an 8-station dialysis center. Moreover, its rooms and ancillary services are priced up to 50 percent cheaper compared to those of bigger health institutions in nearby areas.





EARTH LIFE STORE SUPPLY, INC.

In 2015, DBP granted a P5-million credit facility to Earth Life Store Supply, Inc. (ECHO Store), a corporation run by women entrepreneurs, for the company's working capital requirements.

The credit facility is packaged under DBP's Inclusive Lending for Aspiring Women (ILAW) Entrepreneurs Program which aims to empower women entrepreneurship; help businesses grow beyond microcredit; create jobs and build local economies; and tap into networks of women organizations and experts.

ECHO Store is the first retail outlet of its kind in the Philippines to position green, fair trade community products in a premium, specialty market segment. It sells food products that are sustainable, organic and healthy. Currently, it has branches operating in Quezon City, Taguig, Mandaluyong, Davao, Cebu, Iloilo, and Makati, where its main office is located. ECHO Store will open a new store in Cagayan de Oro this year.

DBP signed a memorandum of agreement with the Women's Business Council of the Philippines (WBCP) for the ILAW program. Since the owners of ECHO Store are WBCP members, they went through an interview with DBP's marketing officers who were able to release the loan within a few months through ILAW.

Most of ECHO Store's beneficiaries or suppliers are women-led communities. They come from as far north as Benguet in the Cordillera region to as far south as Sulu in Mindanao. ECHO Store gives them access to markets they would never have unless they scale up.



www.echostore.ph



RISK MANAGEMENT

The Bank continued to exhibit preparedness and ability to absorb shocks in its pursuit of financial strength and viability to sustain its development efforts. In 2015, DBP sustained its profitable operations and posted a Capital Adequacy Ratio (CAR) of 17.04% on a consolidated basis. This is 7% more than the BSP's regulatory minimum of 10% CAR. It also posted CET1 and Tier 1 ratios of 10.21% on a consolidated basis, above regulatory thresholds. The Bank places emphasis on maintaining a better-than-industry capital ratio to ensure availability of sufficient resources in pursuing the DBP's mandate.

DBP is committed to maintain this strong capital position. Overall risk positions and capital levels are regularly reviewed and monitored to ensure that the Bank is sufficiently capitalized. Integrated stress testing is conducted to provide a comprehensive enterprise-wide assessment of the Bank's vulnerabilities, results of which serve as basis for determining capital buffer for shocks.

With the implementation of the BSP-issued Circular 639 requiring all UKBs to adopt the Internal Capital Adequacy Assessment Process (ICAAP), DBP has adopted the "Pillar I Plus" approach to account for additional capital provisions for non-Pillar I risks such as credit concentration risk, interest rate risk in the banking book, liquidity risk, strategic risk, compliance risk and reputational risk. The Bank has undergone efforts to institutionalize the ICAAP by successfully integrating it in its Strategic Planning Exercise and Enterprise Risk Management (ERM) framework.

MANAGEMENT OF RISK

The responsibility of risk management resides in all levels of the organization with the Board of Directors being ultimately responsible for the overall risk of the Bank.

The Board sets the tone and risk tolerance by articulating the Bank's risk appetite and establishing the risk management strategy for the Bank. The Bank's Board of Directors takes the lead in promoting a culture of risk-awareness throughout the institution. The Enterprise Risk Management Sector (ERMS) recommends policies and methodologies. Risk and capital management is then performed at all levels of the organization, instituting a culture of risk awareness and a risk-based approach to decision-making.

Management of risk is guided and monitored by various Bank committees such as the Risk Oversight Committee (ROC), Governance Committee, Development Advocacy Committee, Audit and Compliance Committee (ACC), Executive Credit Committee (CRECOM), Executive Committee (EXCOM), Financial Risk Management Subcommittee (FRMC), Asset & Liability Management Committee (ALCO), Management Committee (ManCom), Trust Committee and IT Steering Committee, among others.

Management and the Board are provided with detailed analysis of the Bank's portfolio and a comprehensive assessment of its overall risk profile to serve as guide in strategy formulation.

The Bank follows an ERM framework which integrates Strategic Planning, the ICAAP and Business Continuity Planning (BCP). The ERM involves risk assessment and identification from which formulation of risk management strategies emanates. Strategies take into account capital implications and other requirements to ensure continuity of developmental service to the nation. These risk strategies, when implemented, are subject to monitoring and further evaluation with the aim of continually improving the risk management process. Capital adequacy rounds these up as it is needed to ensure financial stability as objectives are achieved even as risk management is enhanced.

CREDIT RISK

Credit risk is the Bank's biggest risk exposure arising mainly from its lending, trade-financing, treasury and underwriting businesses. Past Due and Non-Performing Loans have consistently been kept at single-digit levels, reflective of its ability to manage credit exposure effectively, while keeping its mandate as a development bank.

Given the Bank's primary thrust of financing development to stimulate economic activities across the nation, the Bank's loan portfolio is generally concentrated on developmental loans, typically characterized by large and long-term exposures to priority sectors. DBP actively performs its primary role of financing development in the priority areas of government, including infrastructure and logistics, environment, micro, small and medium enterprises (MSMEs), social services and community development, and manufacturing, among others.

The Bank manages its credit risk at all relevant levels of the organization through its credit evaluation and assessment process, credit policies and controls and monitoring structures. The Bank has an established credit limit structure which provides for safeguards to manage credit concentration risk brought about by significant exposures to single name/group borrowers, industry sectors and DOSRI. Credit risk mitigation is likewise employed through the acceptance of eligible collaterals and guarantees. An internal credit risk rating system (ICRRS) enables monitoring of the portfolio risk level and individual credits, accounts needing remedial action and adequacy of reserves for loan losses.

The Bank makes use of the standardized approach under the Basel framework to determine required capital levels on account of its credit risk exposures. The Bank's total credit risk weighted assets as of December 2015 amounted to P240.91-billion, broken down as follows:

CREDIT RISK-WEIGHTED ASSETS (In Millions Pesos)	GROUP	PARENT
Total Risk-Weighted On-Balance Sheet Assets (Schedule A)	223,813	220,680
Total Risk-Weighted Off-Balance Sheet Assets (Schedule B)	16,759	16,759
Total Counterparty Risk-Weighted Assets in Banking Book (Derivatives and Repo-style Transactions) (Schedule C)	443	443
Total Counterparty Risk-Weighted Assets in Trading Book (Derivatives and Repo-style Transactions) (Schedule D)	78	78
Total Gross Risk-Weighted Assets	241,093	237,960
Deductions	179	-
TOTAL CREDIT RISK-WEIGHTED ASSETS	240,914	237,960

Schedule A - Group ON-BALANCE SHEET ASSETS (In million pesos)	Total Credit Exposure after Risk Mitigation	20%	50%	75%	100%	150%	Total Credit Risk weighted Assets
Cash on Hand	2,990	-	-	-	-	-	-
Checks and Other Cash Items	54	54	-	-	-	-	11
Due from Bangko Sentral ng Pilipinas (BSP)	90,504	-	-	-	-	-	-
Due from Other Banks	11,359	2,440	8,293	-	627	-	5,261
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-
Available-for-Sale (AFS) Financial Assets	76,975	569	15,612	-	28,010	-	35,930
Held-to-Maturity (HTM) Financial Assets	72,474	-	8,566	-	13,496	-	17,779
Unquoted Debt Securities Classified as Loans	35,088	706	2,358	-	32,024	-	33,344
Loans and Receivables	123,640	-	4,996	3,891	111,549	3,200	121,765
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	32,435	-	-	-	-	-	-
Sales Contract Receivable	17	-	-	-	1	16	25
Real and Other Properties Acquired	1,587	-	-	-	-	1,587	2,381
Total Exposures, Excluding Other Assets	447,123	3,769	39,825	3,891	185,707	4,803	216,496
Other Assets	3,114	-	-	-	7,317	-	7,317
Total Exposures, Including Other Assets	450,237	3,769	39,825	3,891	193,024	4,803	223,813
Total Risk-weighted On-Balance Sheet Assets not covered by CRM							450,237
Total risk-weighted On-Balance Sheet Assets covered by CRM							47,212
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS							497,449

Schedule A - Parent ON-BALANCE SHEET ASSETS (In million pesos)	Total Credit Exposure after Risk Mitigation	20%	50%	75%	100%	150%	Total Credit Risk weighted Assets
Cash on Hand	2,976	-	-	-	-	-	-
Checks and Other Cash Items	53	53	-	-	-	-	11
Due from Bangko Sentral ng Pilipinas (BSP)	89,998	-	-	-	-	-	-
Due from Other Banks	11,331	2,440	8,293	-	598	-	5,232
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-
Available-for-Sale (AFS) Financial Assets	76,975	569	15,612	-	28,011	-	35,931
Held-to-Maturity (HTM) Financial Assets	72,457	-	8,566	-	13,479	-	17,762
Unquoted Debt Securities Classified as Loans	35,088	706	2,358	-	32,024	-	33,344
Loans and Receivables	121,128	-	4,996	3,891	109,040	3,197	119,252
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions	32,435	-	-	-	-	-	-
Sales Contract Receivable	17	-	-	-	1	16	25
Real and Other Properties Acquired	1,587	-	-	-	-	1,587	2,380
Total Exposures, Excluding Other Assets	444,045	3,768	39,825	3,891	183,153	4,800	213,937
Other Assets	2,540	-	-	-	6,743	-	6,743
Total Exposures, Including Other Assets	446,585	3,768	39,825	3,891	189,896	4,800	220,680
Total Risk-weighted On-Balance Sheet Assets not covered by CRM							446,585
Total risk-weighted On-Balance Sheet Assets covered by CRM							47,212
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS							493,797

MARKET RISK

A major source of market risk for the Bank is in the form of price and foreign currency risk from its Treasury activities. Trading and investments activities are carried out mainly to manage residual funds from the Bank's lending activities.

While capital requirements are accounted for using the standardized approach, DBP makes use of Value at Risk (VaR) calculations and stress tests and scenario analysis to monitor its risks arising from trading positions to determine the Bank's ability to withstand severe and prolonged adverse market conditions.

The table below provides a summary of Parent Company's VaR profile, by risk class for 2015:

	2015	December 2014- December 2015			2014
	Year end	Average	Min	Max	Year end
In Million Pesos					
Fixed Income	31.31	73.01	9.78	202.61	50.58
Trading					
Foreign Exchange	1.50	17.29	0.38	63.42	3.80
Trading					

As of end 2015, total market risk weighted assets stood at P1.1-billion, of which 82% is accounted for by interest rate exposures.

MARKET RISK-WEIGHTED ASSETS			
(In million pesos)		2015	2014
A.	Using Standardized Approach		
1.	Interest Rate Exposures	906	1,569
2.	Equity Exposures	0	0
3.	Foreign Exposures	196	330
4.	Options	-	-
TOTAL MARKET RISK-WEIGHTED ASSETS		1,102	1,900

Market Risk Management Department – Market and Liquidity Risk Unit (MRMD-MLRU) handles risk management for the Bank's Treasury operations. MRMD-MLRU provides Board, Senior Management and Treasury with comprehensive analytics for market risk. Said business unit establishes and monitors parameters imposed on the Bank's trading portfolio to ensure that the risk tolerance established by the Board of Directors is properly implemented. The trading parameters include exposure and loss limits both on a portfolio and per trader basis. It also includes a set of rules that restrict the type of financial assets that can be traded by the Bank and control mechanisms to ensure that only capable individuals are allowed to trade and all transactions are dealt above board, transparent and with strict adherence to ethical standards.

LIQUIDITY & INTEREST RATE RISK

The Bank's funding profile is different from typical commercial banks which are largely dependent on their deposit base. Being a development bank, it has access to ODA facilities from foreign governments and supranational development banks, as well as other agencies which provide funds characterized by stability, longer tenors and lower interest rates.

The Bank designed the liquidity risk management process with three elements: (1) the Maximum Cumulative Outflow (MCO), (2) stress testing, and (3) the Contingency Funding Plan. This design helps ensure the Bank's ability to meet its maturing obligations, which can be subject to uncertainty resulting from external events and changes in other risk factors.

The Bank has instituted liquidity risk controls taking into account the MCO in both its domestic and foreign currency books. The Bank also employs Liquidity Ratio analyses to determine significant changes in its liquidity profile and identify potential points of liquidity stress and serve as gauge for industry comparison.

	DBP Ratios	Industry Ratio ^{1/}
Stable Funding vs. Non-Liquid Assets	39%	12%
Liquid Assets vs. Volatile Funding	59%	39%
Liquid & Less Liquid Assets vs. Volatile Funding	65%	40%
Key Liquidity Provider Sourced Funding vs. Total Liabilities	18%	3%
Liquid Assets Ratio	40%	32%

^{1/} Top 10 universal banks in terms of assets excluding DBP as of September 30, 2015

The Bank makes use of various tools in managing interest rate risk including the Interest Rate Gap (IR Gap), and Earnings at Risk (EaR) methodologies. The IR Gap is used to identify timing differences in the repricing of assets and liabilities to measure the effect on the Bank's net interest income as a result of interest changes on the balance sheet. The greater these timing differences (commonly known as Repricing Mismatch), the greater the Bank's risk of loss from interest rate shifts. The IR Gap is constructed on a monthly basis by slotting interest rate sensitive assets and liabilities according to their repricing dates or maturity, whichever comes first. However, there are a few specific assumptions used:

- Time deposits reprice a certain period after their repricing/maturity date based on historical statistical analysis.
- Demand and savings deposits reprice at the earliest time bucket.

The Bank also uses the Earnings-at-Risk methodology to measure potential earning impact on the Bank's accrual portfolio. Similar to the VaR concept, it measures the loss potential as a result of adverse market movement under normal events but specific to interest rate shifts. The Bank's IR Gap and EaR is regularly reported to the Risk Oversight Committee. Interest rate risk is managed through a structure of limits which define the Bank's tolerance to losses brought about by interest rate movements. This is complemented by regular stress testing which measures the Bank's ability to absorb interest rate shocks.

The following table shows the impact of reasonable changes in interest rates to the Bank's net income as of December 2013 and December 2014 (amounts in PhP Millions):

Impact of Change in Interest Rate to Net Income (In million pesos)						
Currency	-200 bps	-100 bps	-50 bps	50 bps	100 bps	200 bps
2014						
PHP	1,146	573	287	(287)	(573)	(1,146)
USD	558	279	140	(140)	(279)	(558)
JPY	11	5	3	(3)	(5)	(11)
2015						
PHP	1,630	815	408	(408)	(815)	(1,630)
USD	16	8	4	(4)	(8)	(16)
JPY	39	20	10	(10)	(20)	(39)

MRMD Market and Liquidity Risk Unit (MLRU) handles risk management for the Bank's liquidity and interest rate risks exposures. MLRU establishes the parameters for the liquidity and interest rate risk management tools such as MCO, EaR and IR Gap. More importantly, analysis of the results of these monitoring tools is provided to Treasury, Senior Management and Board to guide decision-making.

OPERATIONAL RISK

The Bank's operational risk capital charge is determined using the Basic Indicator Approach (BIA). An analysis of the Bank's historical loss experience based on data reported and captured via the Enhanced Operational Loss Monitoring Module (eOLMM), an automated system for tracking operational losses, complements the results of the BIA.

The operational risk capital charge is obtained by multiplying the computed average gross income by a specified factor. Capital allocated for operational risk is currently at P2.21-billion.

OPERATIONAL RISK-WEIGHTED ASSETS	GROUP	PARENT
(In Php Millions)		
Using Basic Indicator Approach (BIA)		
Year 3	1,635	1,609
Year 2	1,668	1,655
Year 1	1,993	1,979
Average	1,765	1,748
Adjusted Capital Charge	2,206	2,184
TOTAL OPERATIONAL RISK-WEIGHTED ASSETS	22,065	21,845

Risk and Control Self-Assessment (RCSA) is conducted across the institution to identify risk areas and vulnerabilities. Top level risk assessment is performed by the Board and Senior Management in its annual Strategic Planning exercise. This is complemented by a bottom-up RCSA conducted by business units, wherein high risk areas given the functions of the units are identified and risk responses are determined.

Recognizing the Bank's vulnerability to losses resulting from operational disruptions due to internal factors such as power outage, system downtime and external factors such as natural disasters, terrorist attacks and pandemic illness, among others, the Bank continually exerts efforts to improve its business continuity management including disaster preparedness. The Bank regularly reviews and enhances its Business Continuity Manual to adopt industry best-practices and ensure that the Bank's core business operations continue to function in the event of business disruption or disaster. Regular tests are scheduled and performed to ensure the ability of all Bank units to recover their business operations. Complementing the detailed contingency measures, the

Bank's disaster recovery facilities are regularly assessed and maintained with a view towards the Bank's recovery requirements, including critical application systems, equipment and supplies.

To establish the IT risk management process in the Bank in compliance with BSP Circular No. 808, the IT Risk Management Framework (ITRMF) was developed and subsequently approved by the IT Governance Committee and the Board of Directors in 2015. The ITRMF was created with the primary goal of strengthening the management of IT risks in DBP due to the evolving complexity of risks involved in using information technology in banking service delivery.

To promote and supplement risk awareness and risk ownership, the Bank conducted a series of Consolidated Training on Enterprise Governance, Risk Management, Compliance, and Security for Head Office Units, Regional Marketing Centers and Branches. For Risk Management training, the modules include the risk awareness and management tools of Operational Risk Management, Business Continuity Management and IT Risk Management.

To ensure continuity in the implementation of the various regulatory requirements in incident reporting, operational loss monitoring, business continuity management, and operational and information technology risks, the Bank identified and designated an Operational Risk Coordinator from each business unit. The roles and responsibilities of the coordinator covers the Business Continuity Management, Operational Risk Monitoring and IT Risk Management. The Bank issued Office Order No. 313 dated December 11, 2015 for immediate implementation of the said designation.

COMPLIANCE & LEGAL RISK

Through the Office of the Chief Compliance Officer (OCCO), DBP implements a Compliance Program which includes a regular compliance risk testing of business units. The OCCO also has an Information Security Office which ensures implementation of and monitors compliance with the Bankwide Information Security policy, standards, procedures, and/or guidelines with the aim of achieving information confidentiality, integrity, availability, and accountability for the Bank. Meanwhile, legal risk is centrally managed, through the Legal Services Group, via control structures such as Legal Office sign-off procedures, issuance of legal opinions, continuous training and awareness campaigns.

As an important measure to prevent money laundering through the Bank, DBP has adopted Know Your Customer (KYC) policies. Each business unit is required to validate the true identity of a customer based on reliable identifying documents/records before an account may be opened. For high net worth individuals whose sources

of funds are unclear, a more extensive due diligence is exercised. Decisions to enter into a business relationship with a high risk customer, such as a politically exposed person or an individual holding a prominent position, are made exclusively at the senior management level.

To assess the capital requirements for compliance risk, the bank considers the sum of the highest historical fines and penalties (already settled and therefore acting as buffer) and the total potential fines and penalties. Meanwhile, to assess the capital impact of compliance risk-related legal risk, the following were considered in the computation of capital charge: (1) the amount involved, (2) probable result, and (3) amount of possible liability / loss for ongoing cases that were identified by the litigation lawyers. The estimated capital charge for Compliance and Legal Risks are part of the annual Internal Capital Adequacy Assessment Process (ICAAP).

REPUTATION RISK

As a government financial institution dealing with public funds, trust is of paramount importance to the Bank as the success of our operations is anchored on our credibility and integrity. In all business undertakings, the Bank preserves its good name and live up to its mandate of being a primary driving force for the country's development. This proactive stance is taken to manage its reputation risk, which is not easily measurable. Most importantly, it protects the reputation that took years to build, but will take an instant to tarnish. Even crafting and predicting the whole range of scenarios under which this could ensue is difficult. Potential repercussions may even be huge since a bank's business is built on trust, and it may be entirely impossible to quantify precisely the effects.

Effective communication within the organization is one of the foundations of strong reputation thus, the Bank actively implements marketing and promotion campaigns to maintain its image as a proactive development financial institution with a line-up of responsive products and services. In addition to a broad range of banking and investment products and services, DBP also offers scholarship and reforestation programs as part of its Corporate Social Responsibility.

To keep its good name and reputation, the Bank continually strives to manage and improve its services and operations. The Office of the Chief Marketing Officer implements procedures and initiatives to address publicity issue and concerns. OCMO is also in-charge of the in-house customer feedback and complaints handling programs.

The Bank also believes that corporate governance is important in sustaining its strategic mandate as a catalyst for sustainable development. Towards this end, the Bank has adopted governance policies to ensure that its culture of ethics, compliance, and social responsibility permeates all levels of Bank operations and practices.

STRATEGIC RISK

As a government financial institution, DBP pursues the strategic direction of the National Government, encapsulated in the DBP Balanced Scorecard. This contains DBP's commitment to deliver its core development

mandate that supports the national agenda of inclusive growth and poverty reduction. The scorecard also highlights the Bank's continued pursuit of financial strength and viability to sustain its development efforts.

Strategic risk is the potential risk to earnings and capital of inappropriate business decisions and implementation and/or inability to adequately respond to changing business environment.

Strategic risk is qualitatively assessed, and its management involves setting the strategy, deploying resources, monitoring implementation, and being aware of opportunities and threats. Business plans are aligned with the Bank's strategic thrusts and directions as determined by the Board and Senior Management, with the associated risk assessments taken into consideration in the formulation of risk management strategies and determination of capital requirements. Periodic review of actual performance versus set objectives is done by the Management Committee and the Board. Responsiveness to macroeconomic and industry changes is provided by continuous awareness of various bank units on opportunities and threats, resulting in tactical revisions of specific business plans.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781 (series of 2013) or the Basel III Implementing Guidelines on Minimum Capital Requirements. This provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of at least 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Basel III also requires that existing capital instruments as of December 31, 2010, which do not meet the eligibility criteria for capital instruments under the revised capital framework, shall no longer be recognized as regulatory capital. In addition, under Section 4 of the Circular, capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015.

The Group and the Parent Bank have complied with all externally imposed capital requirements throughout the year.

Prior to January 1, 2014, the risk-based capital ratio is computed in accordance with BSP Circular No. 538 or Basel II.

On a consolidated basis, the Bank's Total Qualifying Capital amounted to P45-billion with Common Equity Tier 1 (CET1) Capital accounting for 60% and Tier 2 Capital at 40% or P18.04-billion:

CAPITAL ADEQUACY (In Php Millions)	GROUP	PARENT
Qualifying Capital		
Common Equity Tier 1 (CET1) Capital	26,958	25,736
Tier 1 Capital	26,958	25,736
Tier 2 Capital	18,045	17,714
TOTAL QUALIFYING CAPITAL	45,003	43,450
CAPITAL CONSERVATION BUFFER	11,113	10,082
Risk-Weighted Assets (RWA)		
Credit RWA	240,914	237,960
Market RWA	1,102	1,102
Operational RWA	22,065	21,845
TOTAL RWA	264,081	260,907
Qualifying Capital Requirements (10.0% of RWA)		
Credit Risk	24,091	23,796
Market Risk	110	110
Operational Risk	2,207	2,185
TOTAL QUALIFYING CAPITAL REQUIREMENT	26,408	26,091
CET 1 Ratio (CET 1 Capital ÷ Total RWA)	10.21%	9.86%
Tier 1 Ratio (Tier 1 Capital ÷ Total RWA)	10.21%	9.86%
Capital Adequacy Ratio (CAR) (Qualifying Capital ÷ Total RWA)	17.04%	16.65%

Capital requirement (equivalent to 10% of risk-weighted assets) for credit risk is at P24.09-billion, P110-million for market risk and P2.21-billion for operational risk. The Bank's risk-based CAR of 17.04% is well above the 12.5% internal and 10% regulatory minimum, while CET1 and Tier 1 ratios are calculated at 10.21%. On top of the 6.0% minimum CET1 capital requirement, the Bank posted P11.11-billion as Capital Conservation Buffer (CCB).

The Bank posted solo CAR, Tier 1 and CET1 ratios of 16.65%, 9.86% and 9.86%, respectively, as of end-2015.

Common Equity Tier 1 capital, Tier 1 capital and Qualifying capital are computed in accordance with the provisions of Part II of BSP Cir. 781. Further, risk weighted assets (RWA) is the sum of (1) credit-risk weighted assets, (2) market risk weighted assets, and (3) operational risk weighted assets.

RWA consist of total assets less 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 determined by the Monetary Board (MB) of the BSP. As of December 31, 2015, the Group has no exposures to securitization structures, contracts that provide credit protection through credit derivatives and investments in other types of structured products. Credit risk mitigants on risk-weighted assets were based on collateralized transactions (margin deposits and hold-out on deposits) as well as guarantees by the Philippine National Government and those guarantors and exposures with highest credit rating. Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by S&P, Moody's, and Fitch on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporations, and Corporates. Operational RWA are computed using the Basic Indicator Approach.

As of December 31, 2015, the P5.5 billion difference between the Bank's Qualifying Capital and the total capital reported in the Audited Financial Statements (AFS) was mainly due to the following: (amounts in billion pesos)

Unsecured Subordinated Debt Classified as Tier 2 Capital	15.6
General Loan Loss Provision	2.1
Regulatory Adjustments to CET 1 Capital	(11.9)
Others	(0.3)
	5.5

Internal Credit Risk Rating System

The ICRRS automation project was discontinued as it will be included in the Bank's Integrated Core Banking System. The Credit Policy Supervision department actively participated in the Core Banking Solutions Project for integration of the ICRRS in the Loans Module.

The validation of the ICRRS, conducted by the external consultant SGV & Company, was completed during the third quarter of 2015. The results were presented to the Board of Directors during the fourth quarter.

The policies and procedures for succeeding ICRRS validation, to be conducted internally, were approved by the Board in the last quarter of 2015.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS PROFILE

Chairman JOSE A. NUÑEZ, JR.

Chairman Nuñez has extensive experience in banking, finance, and business management, serving as chairman, member of the Board, chief executive officer and chief operating officer of several financial and private institutions including Philippine Veterans Bank, Citystate Savings Bank, and Federal Savings and Mortgage Bank.

Appointed to the DBP Board on August 13, 2010, Chairman Nuñez is vice chairman of Al Amanah Islamic Investment Bank of the Philippines; vice chairman* of DBP Leasing Corporation; chairman of DBP Insurance Brokerage, Inc.; and a director of the National Development Company, among other affiliations.

Chairman Nuñez has a Bachelor of Arts major in Economics degree (Honors Program) from Xavier University, and is a candidate for a Masters in Business Administration degree from the Ateneo de Manila University.

Director CECILIO B. LORENZO

Director Lorenzo served as undersecretary for finance of the Department of National Defense from 2005-2006. His experience in general management includes the following: president and chief operating officer of Infocom Technologies, Inc.; vice president of Fort Bonifacio Development Corporation; president of Ester Corporation and general manager of Metro Bottled Corporation.

Appointed to the DBP Board on September 3, 2010, Director Lorenzo is chairman of DBP Data Center, Inc.; and a director of Metro Rail Transit Corporation, Natural Resources Development Corporation, and Philippine Mining Development Corporation, among other affiliations.

Director Lorenzo is a B.S. Management Engineering graduate of the Ateneo de Manila University, and holds a Masters in Business Management from the Asian Institute of Management.

Vice Chairman GIL A. BUENAVENTURA

Prior to his stint in DBP, President Buenaventura was senior executive vice president and chief operating officer of the Bank of the Philippine Islands, where he also held key positions as head of its corporate banking and operations group. He also served as president of Prudential Bank, and was a former executive vice president of Citytrust Banking Corporation and vice president of Citibank, N.A.

Appointed to the DBP Board on October 1, 2012, President Buenaventura is chairman* of DBP Management Corporation; chairman of DBP Daiwa Securities; vice chairman of LGU Guarantee Corporation; a director of Al Amanah Islamic Investment Bank of the Philippines; a member of the Board of Trustees of Millennium Challenge Account; and a member, representing GFIs in the National Renewable Energy Board, Department of Energy, among other affiliations.

President Buenaventura earned his Bachelor of Arts in Economics degree from the University of San Francisco. He has a Master of Business Administration in Finance from the University of Wisconsin.



Director REYNALDO G. GERONIMO

Director Geronimo was a partner in the Romulo Law Office from 1994 to 2012, among other positions held in the public and private sectors. Early in his career, Director Geronimo was with Far East Bank and Trust Corporation as assistant trust legal counsel and with Provident National Bank as trust administrator. He was also general counsel of National Home Mortgage Finance and trust officer of Land Bank of the Philippines.

Appointed to the DBP Board on September 24, 2013, Director Geronimo is director* of Al Amanah Islamic Investment Bank of the Philippines; director of DBP Data Center, Inc.; alternate for the Philippine International Trading Corporation; and alternate for the National Food Authority, among other affiliations.

Director Geronimo earned his undergraduate degree from the Ateneo College of Arts and Letters, his bachelor of laws from the Ateneo Law School, and master of laws from the University of Pennsylvania.

Director VAUGHN F. MONTES

Director Montes' career as an economist includes 25 years in Citibank Corporate Bank where he served as senior economist, vice president of the Philippines Restructuring Committee, unit head of International Corporate Finance, and director of Emerging Markets and head of Public Sector Group. Before that, he was an economist in Wharton Econometrics Forecasting Associates in Philadelphia, USA and deputy director of the Institute of Industrial Economics at the Center for Research and Communication (now University of Asia and the Pacific).

Appointed to the DBP Board on September 24, 2013, Director Montes is a director* of DBP Leasing Corporation, and a director of Metro Rail Transit Corporation, DBP Daiwa Capital Markets Philippines, Inc., and Al Amanah Islamic Investment Bank of the Philippines.

Director Montes received his undergraduate degree in economics from the Ateneo de Manila University, and earned his master's degree in industrial economics and doctorate degree in business economics from the Center for Research and Communication and Wharton Doctoral Programs University of Pennsylvania, respectively.

Director LYDIA B. ECHAUZ

Before joining DBP, Director Echauz was president of Far Eastern University and its related schools for a decade until 2012. She also spent 16 years as dean of the De La Salle University Graduate School of Business. Before that, she was with the Ateneo de Manila University Graduate School of Business for five years.

Appointed to the DBP Board on September 24, 2013, Director Echauz is a director of DBP Insurance Brokerage, Inc., and DBP Data Center, Inc., among other affiliations.

Director Echauz has a bachelor's degree in Math and Economics from St. Theresa's College, a master's degree in business administration from Ateneo de Manila University, and a doctorate degree in business administration from De La Salle University.

Director ALBERTO A. LIM

Director Lim served as Secretary of Tourism from July 2010 to August 2011, among other affiliations in business, government, and civil society. As chief executive officer of a resort development company, he pioneered the triple bottom line long before the term became fashionable. He founded community-based social development agencies to help people in the communities he worked in increase their capacity to improve their quality of life. Director Lim also served as executive director of the Makati Business Club, and helped organize the Jaime V. Ongpin Institute of Business and Government.

Appointed to the DBP Board on November 10, 2011, Director Lim is chairman* of DBP Leasing Corporation; vice chairman of DBP Data Center, Inc.; director* of Metro Rail Transit Corporation; and alternate³ for the Strategic Investment Development Corporation, among other affiliations.

Director Lim has a bachelor's degree in economics from the Ateneo de Manila University, a master's degree in business administration from the Harvard Business School, and a master's degree in public administration from the Kennedy School of Government, Harvard University.

Director RAUL O. SERRANO

Before joining DBP, Director Serrano was connected with Allied Bank, Solid Bank, and PBCOM, in various capacities. He was also a trustee of the Government Service Insurance System.

Appointed to the DBP Board on August 15, 2014, Director Serrano is a director of DBP Data Center, Inc. and DBP Insurance Brokerage, Inc.

Director Serrano earned his commerce degree from the Ateneo de Naga.

Director DANIEL Y. LAOGAN

Director Laogan is a managing partner of the Laogan & Santillan Law Offices, chairman and president of Addmore Properties, Inc., and senior adviser of the Federation of Filipino Chinese Chambers of Commerce & Industry, Inc. He is also president emeritus of the Chinese Filipino Business Club, Inc. Banking operations are not peculiar to Director Laogan as he has devoted much of his time as a legal practitioner representing financial institutions which are in the roster of clients of his law firm.

Appointed to the DBP Board on August 13, 2010 until his resignation effective October 1, 2015, Director Laogan was chairman of DBP Insurance Brokerage, Inc., and a former director of the National Food Authority and Metro Rail Transit Corporation.

Director Laogan earned his bachelor's degree in commerce from the University of Santo Tomas, where he also completed the academic requirements for a master's degree in commerce, major in taxation. He then studied law at the Ateneo de Manila University.

* Subject to the approval of the Governance Commission for GOCCs

- 1 Per PITC Charter – the Chairman of the Development Bank of the Philippines shall sit as one of the members of the Board of Directors of PITC.
- 2 Per NFA Charter – (PD 4 as amended) – the Chairman of Development Bank of the Philippines shall sit as one of the members of the NFA Council.
- 3 Per PD 1396 – the Chairman of the Development Bank of the Philippines shall sit as one of the members of the Governing Body of the Corporation.

CORPORATE GOVERNANCE

MEMBERSHIP IN BOARD COMMITTEES



Seated (from left): Jose A. Nuñez, Jr. (Chairman of the Board/ Independent Director) and Gil A. Buenaventura (Vice Chairman of the Board/ President and Chief Executive Officer)

Chairman JOSE A. NUÑEZ, JR.

Chairman

- Executive Committee (Jan. 1 – Dec. 31, 2015)
- Audit and Compliance Committee ((Jan. 1 – Dec. 31, 2015)

Member

- IT Governance Committee (Jan. 1 – Dec. 31, 2015)

Vice Chairman GIL A. BUENAVENTURA

Vice Chairman

- Executive Committee (Jan. 1 – Dec. 31, 2015)
- Member
- Trust Committee (Jan. 1 – Dec. 31, 2015)
 - Human Resource Committee (Jan. 1 – Dec. 31, 2015)
- Ex-Officio Member
- IT Governance Committee (Jan. 1 – Aug. 11, 2015)

Director LYDIA B. ECHAUZ

Chairman

- Human Resource Committee (Jan. 1 – Dec. 31, 2015)

Vice Chairman

- Governance Committee (Jan. 1 – Dec. 31, 2015)
- IT Governance Committee (Jan. 1 – Dec. 31, 2015)

Member

- Audit and Compliance Committee (Nov. 3 – Dec. 31, 2015)

Director REYNALDO G. GERONIMO

Chairman

- Trust Committee (Jan. 1 – Dec. 31, 2015)

Member

- Development Advocacy Committee (Jan. 1 – Dec. 31, 2015)



Standing (from left): Director Reynaldo G. Geronimo; Director Daniel Y. Laogan (Independent Director); Director Raul O. Serrano; Director Lydia B. Echauz; Director Alberto A. Lim; Director Cecilio B. Lorenzo; Director Vaughn F. Montes

Director DANIEL Y. LAOGAN

Chairman

- Governance Committee (Jan. 1 – Sept. 30, 2015)

Vice Chairman

- Human Resource Committee (Jan. 1 – Sept. 30, 2015)

Member

- Audit and Compliance Committee (Jan. 1 – Sept. 30, 2015)

Director ALBERTO A. LIM

Chairman

- Risk Oversight Committee (Jan. 1 – Dec. 31, 2015)

Vice Chairman

- Trust Committee (Jan. 1 – Dec. 31, 2015)

Member

- Executive Committee (Jan. 1 – Dec. 31, 2015)

Director CECILIO B. LORENZO

Chairman

- IT Governance Committee (Jan. 1 – Dec. 31, 2015)

Vice Chairman

- Audit and Compliance Committee (Jan. 1 – Dec. 31, 2015)
- Risk Oversight Committee (Jan. 1 – Dec. 31, 2015)

Director VAUGHN F. MONTES

Chairman

- Development Advocacy Committee (Jan. 1 – Dec. 31, 2015)

Member

- Risk Oversight Committee (Jan. 1 – Dec. 31, 2015)

Director RAUL O. SERRANO

Acting Chairman

- Governance Committee (Oct. 6 – Dec. 31, 2015)

Vice Chairman

- Development Advocacy Committee (Jan. 1 – Dec. 31, 2015)

Member

- IT Governance Committee (Jan. 1 – Dec. 31, 2015)
- Governance Committee (Jan. 1 – Oct. 5, 2015)

CORPORATE GOVERNANCE

BOARD COMMITTEES

Assignment of Independent Directors

Chairman Jose A. Nuñez, Jr. and Director Daniel Y. Laogan have been designated as independent directors of DBP duly approved by the Bangko Sentral ng Pilipinas. The assignment of independent directors is made from choosing among the nine directors appointed by the President of the Philippines following Subsection X141.1 of the Manual of Regulations for Banks (MORB).

Functions of the ExCom and Board Committees

To aid in the compliance with the principles of good governance, DBP has set up the following committees, namely: the Executive Committee (ExCom), Audit and Compliance Committee (ACC), Risk Oversight Committee (ROC), Trust Committee (TC), IT Governance Committee (ITGC), Governance Committee (GC) and Human Resource Committee (HRC). In addition, DBP created the Development Advocacy Committee (DAC) to further strengthen the implementation of its development mandate as well as further improve its governance.

Below are the specific functions of the various Board Committees, the number of Committee meetings held, and attendance of the Committee members as of year-end 2015.

BOARD OF DIRECTORS		
Regular Meeting	No. of Meetings Held Since Assumption	No. of Meetings Attended
Jose A. Nuñez, Jr.	28	28
Gil A. Buenaventura	28	28
Lydia B. Echauz	28	28
Reynaldo G. Geronimo	28	28
Daniel Y. Laogan*	22	22
Alberto A. Lim	28	28
Cecilio B. Lorenzo	28	28
Vaughn F. Montes	28	28
Raul O. Serrano	28	28

Total number of meetings held during the year: 28

Special Meeting (4) & Approval by Referendum (20)	No. of Meetings Held Since Assumption	No. of Meetings Attended
Jose A. Nuñez, Jr.	24	24
Gil A. Buenaventura	24	24
Lydia B. Echauz	24	24
Reynaldo G. Geronimo	24	24
Daniel Y. Laogan*	14	14
Alberto A. Lim	24	24
Cecilio B. Lorenzo	24	24
Vaughn F. Montes	24	24
Raul O. Serrano	24	24

Total number of meetings held during the year: 24

* Director Daniel Y. Laogan resigned from the service effective October 1, 2015

EXECUTIVE COMMITTEE

The Executive Committee is a scaled down version of the Board of Directors. The ExCom is tasked with reviewing the short and long term plans prepared by Management prior to submission to the Board. It also reviews progress against plan with emphasis on those activities or units within activities that are not performing up to agreed upon standards.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Jose A. Nuñez, Jr.	17*	16
Gil A. Buenaventura	17*	16
Lydia B. Echauz	4	4
Reynaldo G. Geronimo	7*	7
Daniel Y. Laogan	6	6
Alberto A. Lim	17*	17
Cecilio B. Lorenzo	5	5
Vaughn F. Montes	5	5
Raul O. Serrano	7*	7

Total number of meetings held during the year: 17 (inclusive of one Approval by Referendum)

* No. of meetings upon assumption includes one Approval by Referendum

The Executive Committee is composed of the Chairman, the President and CEO and three other members of the Board of Directors. The regular attendees of the Executive Committee are Chairman Jose A. Nuñez, Jr., President and CEO Gil A. Buenaventura and Director Alberto A. Lim, being the Chairman of the Risk Oversight Committee. The two other members of the Executive Committee are designated by the Board of Directors from among the other Board members on rotation basis.

TRUST COMMITTEE

The Trust Committee is composed of the President and CEO, three members of the Board and the Head of Trust Banking Group (TBG). The TC is a policy-making body tasked with overseeing the investment activities of TBG and formulation of broad investment strategies for TBG through establishment of major policy criteria for investment decisions and determination of areas of investments for trust funds. It is in charge of periodically reviewing TBG's operating policies and procedures as well as overall assets held in trust.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Reynaldo G. Geronimo	14	14
Alberto A. Lim	14	13
Gil A. Buenaventura	14	14
Bernadine T. Siy*	6	6
Ma. Teresa T. Atienza	14	10

Total number of meetings held during the year: 14 (inclusive of two Approvals by Referendum and one Trust Committee of the Whole Meeting)

* Ms. Bernadine T. Siy became a member of the Trust Committee effective August 5, 2015 per BR 0266 dated August 5, 2015, being an "Independent Professional" as defined in Sections X406.2 – X406.3 of the Manual of Regulations for Banks of the Bangko Sentral ng Pilipinas

RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee includes three members of the Board. The ROC is principally responsible for overseeing the adequacy and effectiveness of existing risk policies, procedures and controls as well as ensuring that such policies, procedures, and controls are implemented. It also reviews and revises the plans/ strategies of the Bank to ensure its relevancy, adequacy, and effectiveness in the face of changing risk exposures over time brought about by various factors.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Alberto A. Lim	12	12
Cecilio B. Lorenzo	12	12
Vaughn F. Montes	12	12

Total number of meetings held during the year: 12

DEVELOPMENT ADVOCACY COMMITTEE

The Development Advocacy Committee is composed of three members of the Board. The DAC is the unifying and focal body in spearheading the Bank's drive towards accomplishing its developmental mandate. It takes the lead in generating ideas, promoting awareness or development issues, advocating development programs and projects, and expanding and strengthening linkages within and outside the Bank towards a unified and distinct approach to accomplish DBP's development mandate.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Vaughn F. Montes	5	5
Raul O. Serrano	5	5
Reynaldo G. Geronimo	5	5

Total number of meetings held during the year: 5

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is made up of three members of the Board, two of whom are independent directors. The ACC provides oversight of the institution's financial reporting and control and external and internal audit functions, including the Bank's Internal Audit (IA) and Compliance Monitoring (CoM). It reviews the reports of internal and external auditors and regulatory agencies and monitors Management's compliance with regulatory requirements as well as corrective actions taken on identified control deficiencies.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Jose A. Nuñez, Jr.	14	14
Cecilio B. Lorenzo	14	14
Daniel Y. Laogan*	10	10
Lydia B. Echaz**	2	2

Total number of meetings held during the year: 14 (inclusive of one Approval by Referendum)

* Director Daniel Y. Laogan resigned from the service effective October 1, 2015

** Director Lydia B. Echaz became a member of the Audit and Compliance Committee effective November 3, 2015 per BR 0360 dated October 21, 2015

GOVERNANCE COMMITTEE

The Governance Committee is composed of three members of the Board. Director Laogan, who is also an independent director, served as a Chairman of the GC

up to September 30, 2015. The GC ensures the Board's effectiveness in fulfilling its corporate governance responsibilities. It is tasked with the review and evaluation of the qualifications of all persons nominated to positions requiring appointment by the Board. In addition, it oversees the periodic performance evaluation of the Board and its Committees and Executive Management as well as makes recommendations to the Board regarding the continuing education of directors and assignment to board committees.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Daniel Y. Laogan*	6	6
Raul O. Serrano**	8	8
Lydia B. Echaz	8	8

Total number of meetings held during the year: 8

* Director Daniel Y. Laogan resigned from the service effective October 1, 2015

** Director Raul Serrano was a Member of the GC from January to October 5, 2015 and was designated Acting Chairman of the GC effective October 6, 2015 per BR 0336 dated October 6, 2015

IT GOVERNANCE COMMITTEE

The IT Governance Committee is composed of Chairman Nuñez, the President and CEO and two members of the Board. The ITGC strongly advocates the strategic importance of IT in the context of the Bank's operations and ensures that the directions set for IT are aligned with and will sustain the Bank's goals and objectives. It also ensures that the Bank's Information Systems Strategic Plan (ISSP) is appropriately developed to reflect the business requirements for IT and is reviewed periodically. Additionally, it ensures that IT's performance is measured, its resources are managed, and its risks mitigated.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Cecilio B. Lorenzo	14	14
Lydia B. Echaz	14	14
Jose A. Nuñez, Jr	14	14
Raul O. Serrano	14	14
Gil A. Buenaventura*	7	7

Total number of meetings held during the year: 14 (inclusive of one Approval by Referendum)

* President Gil A. Buenaventura was an Ex-Officio Member of the ITGC from January to August 11, 2015.

HUMAN RESOURCE COMMITTEE

The Human Resource Committee is comprised of the President and CEO and two members of the Board. The HRC reviews, screens, and formalizes management recommendations on HR related matters for the Board's approval. It is tasked with the review of bankwide compensation and benefits programs, organization plans and structure, management development programs, and Personnel Manuals, among others. It also handles the review of the Bank's manpower plan including enhancements and promotions to meet growth needs.

	No. of Meetings Held Since Assumption	No. of Meetings Attended
Lydia B. Echaz	14	14
Daniel Y. Laogan*	11	11
Gil A. Buenaventura	14	14

Total number of meetings held during the year: 14 (inclusive of one Approval by Referendum)

* Director Daniel Y. Laogan resigned from the service effective October 1, 2015

CORPORATE GOVERNANCE ACTIVITIES

As the leading financial institution in the country, DBP continues to operate on a strong platform of good governance. With the challenges presented by various forces in the industry, DBP has once again established itself as a financial institution that withstood the test of time through good governance and remaining committed to its mandate of serving the Filipino people.

Every July, the Bank celebrates the DBP's Corporate Governance Month and is highlighted by the annual Good Governance Forum. For 2015, the forum's theme was: "Good Corporate Governance: Building Inclusive Industries, Sectors and Regions", with Senator Grace Poe and Securities and Exchange Commission Chairperson Teresita J. Herbosa as resource speakers.

The Bank's strong commitment to governance is manifested through its efforts to share the Bank's best practices with its subsidiaries - the DBP Data Center Inc., DBP Management Corporation, DBP Leasing Corporation and Al Amanah Islamic Investment Bank. These institutions signed the Integrity Pledge in July 2015 as part of the Bank's activities for the 3rd Corporate Governance Month. By signing the Integrity Pledge, the subsidiaries declared their commitment to integrity and professed that only ethical practices shall be observed in their organizations. Moreover, the corporate governance policies of the Bank enshrined in the DBP Manual of Corporate Governance are now gradually being adopted by these subsidiaries with the objective of ensuring that the culture of ethics, compliance and integrity is practiced within the group.

It was also in the same year when the Bank completed and passed the third stage of the Performance Governance System (PGS) – the Proficiency Stage, and was conferred the Silver Governance Trailblazer Award. Through PGS, the Bank further proved its potential to translate its statements of vision and governance to actionable strategies and commitments leading to the realization of breakthrough results.

The Bank's efforts at strengthening its corporate governance have been acknowledged by no less than the Association of Development Financing Institutions in the Asia Pacific or ADFIAP when the DBP Good Governance Program won the Corporate Governance Category of the ADFIAP Awards 2015 in Ho Chi Minh City, Vietnam.

These are testaments of the major gains generated by the Bank through the collective hard work of the DBP Board, Management, and officers and employees. Truly, emerging trends dictate that an institution's performance should not solely be measured by financial viability alone, but also by the corporate governance framework upon which the institution rests. DBP stands proud to serve as a beacon of good governance, and at the same time, able to sustain its growth momentum as the catalyst for a progressive and more prosperous Philippines.

We've done our best to ensure that DBP's development mandate will be fully pursued based on the principles of sound corporate governance.

- Chairman Jose A. Nuñez, Jr.



DBP Chairman Jose A. Nuñez, Jr. delivers his message during the Good Governance Forum. Seated onstage (from left): DBP President and CEO Gil A. Buenaventura, Securities and Exchange Commission Chairperson Teresita J. Herbosa, Senator Grace Poe, and DBP FVP Perla Melanie C. Caraan

MANAGEMENT COMMITTEES

Management Committee

The Management Committee (ManCom) is the highest collective approving body of the Bank and approves matters based on the decision of the majority of its members. It is composed of the President and CEO as Chairman, and the designated Senior Officers.

The ManCom Chairman may invite other members of senior management to sit in the deliberations of the Committee as non-voting members or observers who attend all ManCom meetings.

In general, policy and operational matters presented to the ManCom for approval cut across sectors and impact on the whole Bank. These include: (1) all matters of policy, whether administrative or credit in nature, for determination of management's official position prior to Board submission and approval; (2) all matters of policy, whether administrative or credit in nature, as may be delegated by the Board of Directors for ManCom deliberation and approval; and (3) administrative or operational matters that are within the approving authorities of any of its members but, because of their nature, would benefit from the collective wisdom and deliberation of the ManCom as a collegial body.

Other collective bodies of management are the Credit Committee and the Asset and Liability Management Committee.

Members	No. of Meetings Upon Assumption	No. of Meetings Attended
President Gil A. Buenaventura	33	27
EVP Anthony T. Robles	33	25
EVP Susan Z. Prado	33	32
EVP Benel D. Laguna	33	22
EVP Alexander A. Patricio	33	26
EVP Mario B. Palou	33	27
FSVP Fritzie T. Fabricante	33	30
FSVP Nilo S. Cruz	33	29
SVP Lilia G. Baun	33	31
SVP Dennis D. Decena	33	29
SVP Marietta M. Fondevilla	33	30
SVP Lugarda C.B. Peralta	33	25
SVP Donna P. Shotwell	33	31
SVP Antonio Owen S. Maramag	33	31

Credit Committee

The Credit Committee (CreCom) deliberates and acts on all credit and credit-related proposals. These include: (1) proposals for loans and other credit accommodations; (2) credit-related matters involving prospective borrowers; (3) lending programs, policies and guidelines; (4) amendments on previously approved credit and credit-related matters; and (5) call reports or any other subject matter affecting clients/accounts/business, industry or market.

The CreCom serves as approving authority for all credit and credit-related proposals within its Delegated Authorized Credit Limits (DACLS). In addition, it passes/screens proposals prior to submission to higher authority level (ExCom/Board). All credit proposals requiring ExCom/Board approval shall bear the endorsement of the President and CEO.

Members	No. of Meetings Upon Assumption	No. of Meetings Attended
Chairman		
President Gil A. Buenaventura	45	35
Member		
EVP Susan Z. Prado ¹	14	10
EVP Anthony T. Robles	45	37
EVP Benel D. Laguna	45	35
EVP Mario B. Palou	45	36
SVP Lilia G. Baun	45	43
SVP Marietta M. Fondevilla ¹	14	5
FSVP Ma. Teresa M. Jesudason ^{1&2}	14	24

Total number of meetings held in 2015: 45

Alternate Member/s	
FVP Daniel M. Gonzalez ²	7
FVP Ma. Lourdes B. Gumba ²	2
VP Roxann D. Morales ²	5
FVP Paul D. Lazaro ³	3
VP Abelardo L. Monarquia ³	1

¹ Regular member up to April 14, 2015

² Designated regular alternate member on April 21, 2015

³ Serves as an alternate member

Asset and Liability Management Committee

The Asset and Liability Management Committee (ALCO) is directed towards the optimization of income to ensure viable and profitable operations through maximization of yields and minimization of costs relative to risk and opportunities in the market. The specific functions of ALCO include approval of pricing policies and interest rate setting, and review/notation of reports, namely Sources/Uses of Funds, Profitability and Financial Performance Indicators, Fund Sourcing, Market Highlights, and Economic Review.

The Committee serves both as an approving authority and a pre-clearing body of the Bank's participation in underwriting and direct equity investment activities.

To assist in the deliberation and to facilitate the implementation of recommendations deliberated upon and approved by the Committee, the Head of the Corporate Finance Group, the Chief Legal Counsel, and concerned Heads of Sectors/Departments/Units (except when they are designated as ALCO members) are invited to attend the meetings of the Committee as Resource Persons whenever there is any issue that might need their expertise and/or affect their operations.

Members	No. of Meetings Upon Assumption	No. of Meetings Attended
Chairman		
President Gil A. Buenaventura	50	37
Member		
EVP Anthony T. Robles	50	38
EVP Susan Z. Prado	50	49
EVP Benel D. Laguna	50	39
EVP Mario B. Palou	50	34
EVP Dennis D. Decena	50	39
EVP Alexander A. Patricio	50	40
SVP Mariquita L. Agena*	50	24/26
SVP Lilia G. Baun	50	46
SVP Lutgarda B. Peralta	50	37
SVP Marietta M. Fondevilla	50	42
FSVP Ma. Teresa M. Jesudason	50	44
FVP Roda T. Celis**	23	22/23
VP Nenita R. Dy	50	47

* Resigned as of June 30, 2015

** Acting TrG Head as of July 13, 2015

MANAGEMENT COMMITTEE



***Seated (from left):** Senior Vice President Marietta M. Fondevilla; First Senior Vice President Ma. Teresa M. Jesudason; Executive Vice President Susan Z. Prado; President and Chief Executive Officer Gil A. Buenaventura; Senior Vice President Lutgarda C. Baquiran-Peralta; Senior Vice President Lilia G. Baun; Senior Vice President Donna P. Shotwell*



Standing (from left): Executive Vice President Mario B. Palou; Executive Vice President Benel D. Laguna; Senior Vice President Rafael Danilo Ranil M. Reynante; First Senior Vice President Nilo S. Cruz; Executive Vice President Alexander A. Patricio; Executive Vice President Anthony T. Robles; Senior Vice President Dennis D. Decena; Senior Vice President Antonio Owen S. Maramag; First Senior Vice President Fritzie T. Fabricante

SENIOR OFFICERS

OFFICE OF THE PRESIDENT & CEO



GIL A. BUENAVENTURA
President & CEO



CRIS S. CABALATUNGAN
Executive Vice President



NILO S. CRUZ
First Senior Vice President



FRITZIE P. TANGKIA-FABRICANTE
First Senior Vice President



MA. TERESA T. ATIENZA
Senior Vice President



LUTGARDA C. BAQUIRAN-PERALTA
Senior Vice President



DANNY E. BUNYI
Senior Vice President



MARIETTA M. FONDEVILLA
Senior Vice President



RAFAEL DANILORANIL M. REYNANTE
Senior Vice President



DONNA P. SHOTWELL
Senior Vice President



PERLA MELANIE C. CARAAN
First Vice President



DANILO T. REYES
First Vice President



JORGE R. ALMORO
Vice President



SHERIDAL C. BERNAL
Vice President



MADELEINE M. CASAS
Vice President



RENE A. GAERLAN
Vice President



ARDY D. GOMEZ
Vice President



VICENTE S. PAGDATOON II
Vice President



CRISTOPHER C. REALINA
Vice President



KARL GLENN G. REYES
Vice President



RUEL G. ROMBOA
Vice President



STELLA A. SAMPAYAN
Vice President



RONALDO U. TEPORA
Vice President



MARIA VIRGINIA M. TIPACE
Vice President



FELIPE P. VELASCO
Vice President



MINERVA M. VIRTUCIO
Vice President

**BRANCH
BANKING
SECTOR**



ANTHONY T. ROBLES
Executive Vice President



MA. TERESA M. JESUDASON
First Senior Vice President



ANTONIO OWEN S. MARAMAG
Senior Vice President



ALBERTO O. QUIOGUE
First Vice President



MARK DENNIS S. TAN
First Vice President



CATALINA R. AVILA
Vice President



RICARDO JOSEF S. BANDAL II
Vice President



NEOGEN M. CHAVES
Vice President



GERONIMO ALFREDO GERALD S. CRISOLOGO
Vice President

SENIOR OFFICERS



FERNANDO G. LAGAHIT
Vice President



ABELARDO L. MONARQUIA
Vice President



SISINIO N. NARISMA
Vice President



EDUARDO Z. RIVERA
Vice President



EDGAR N. SERONAY
Vice President

CORPORATE BANKING SECTOR



LILIA G. BAUN
Senior Vice President



MA. LOURDES B. GUMBA
First Vice President

DEVELOPMENT BANKING SECTOR



BENEL D. LAGUA
Executive Vice President



DANIEL M. GONZALES
First Vice President



PAUL D. LAZARO
First Vice President

ENTERPRISE RISK MANAGEMENT SECTOR



ALEXANDER A. PATRICIO
Executive Vice President



AURALYN S. TORRES
Senior Vice President



RODAT T. CELIS
First Vice President



ARMÍ M. LAMBERTE
Vice President



MARIO P. PAGARAGAN, JR.
Vice President



ROSE MARIE Q. QUILANTANG
Vice President



RAINIER C. TERESA
Vice President

**FINANCIAL
RESOURCES
SECTOR**



FE SUSAN Z. PRADO
Executive Vice President



JOSE GABINO D. DIMAYUGA
Senior Vice President



GEORGE S. INOCENCIO
First Vice President



GILDA M. VELEZ
First Vice President



SUZANNE S. AQUINO
Vice President



FRANCIS NICOLAS M. CHUA
Vice President

**MIDDLE
MARKET
GROUP**



MARIO B. PALOU
Executive Vice President



ROXANN D. MORALES
Vice President



FRANCISCO R. RAMOS
Vice President

**OPERATIONS
SECTOR**



DENNIS D. DECENA
Senior Vice President



NENITA R. DY
Vice President



ISABELITA S. LOPEZ
Vice President



ERNESTO R. PURUGGANAN
Vice President



RUBY R. RODEROS
Vice President



MARIE CIELO T. VERAN
Vice President

DBP SUBSIDIARIES



DBP Management Corporation (DBP-MC) was created primarily to assist DBP in the management of its distressed accounts and disposal of acquired assets. The company has likewise been engaged to purchase, or otherwise dispose of real and personal property of every kind and description and to carry on and manage the general business of any company.

In September 2005, DBP-MC was authorized by DBP, its parent, to put up a remittance office in Hong Kong in pursuit of the Bank's remittance business and other related activities. The move was aligned with the company's strategic role of pushing the Bank's OFW remittance program in support of the then Government's thrusts. Such endeavor required the increase in DBP-MC's capitalization from P10 Million to P50 Million, of which DBP subscribed and paid for an additional P35 Million capital stock. However, in December 2014, the Hong Kong remittance office was closed to give way to

DBP management's shift in strategy and business model for its OFW remittance business in Hong Kong.

As of 31 December 2015, DBP-MC's assets decreased to P72.57 Million from P114.76 Million primarily due to the closure of the Hong Kong remittance office. Following said closure, the company reversed its investment in the subsidiary and accordingly effected the same in its books on 29 December 2015 and this resulted in a net loss of P10.75 Million.

DBP-MC continues to operate as a holding company pending GCG's evaluation on the mandate and operations of the company. Any further action to be made by DBP-MC hinges largely on the result of GCG's review as well as DBP's approval. Meantime, closure activities initially identified are being pursued.



DBP DATA CENTER, INC.

Empowering the country's premier development bank

DBP Data Center, Inc. has been continuously supporting DBP's Information Technology Infrastructure for the past 33 years. In 2015, DCI continued to focus primarily on assisting the Bank's initiatives on various products by providing the workforce for the development and maintenance of the Bank's systems and applications. Furthermore, DCI also started to seek opportunities to increase revenues by expanding its customer base to include government agencies and instrumentalities. This was made possible by the GPPB Resolution 12-2013, No. 3 amending section 4 (c) of the Implementing Guidelines on Agency-to-Agency Agreements and deleting the second paragraph that excludes non-chartered GOCCs as Servicing Agencies. Below are DCI's notable accomplishments in 2015.

DBP Opportunities

DBP IT Staffing – Among DCI's core competencies is identifying the right people suitable for augmenting the IT staffing needs of the Bank. As of December 31, 2015, DCI has a total of 145 employees working closely with the Bank's IT requirements.



Contract signing for the computerization project of Zamboanga Del Norte Medical Center with Governor Roberto Y. Uy (seated 3rd from left) and Vice Governor Senen O. Angeles (seated 2nd from left), both from the Province of Zamboanga Del Norte, and former DCI OIC Marietta M. Fondevilla (seated 4th from left) and DCI President and CEO Nilo S. Cruz (seated rightmost).

Non-DBP Opportunities

The company has started negotiations on non-DBP projects focusing on government agencies and instrumentalities such as:

1. Philippine Port Authority (PPA) – This is an ongoing consultancy project (six months contract) where DCI provides Business Process Review to maximize the use of their current system. Visits to PPA ports such as Batangas Port and Cagayan de Oro Port were done in October and November 2015.
2. Zamboanga Del Norte Medical Center – This is also an ongoing project (5-year contract) where DCI provides Hospital Information System for LGU hospitals. Full implementation (formal launch to live production) on November 27, 2015.
3. Bureau of Customs – An ongoing project related to Cyber Security package solution.

Other Opportunities

Development of Applications – DCI has started development of various solutions and applications for clients' need such as Philippine Economic Zone Authority, Philippine Postal Corporation, and other government agencies. These applications are:

1. Online Payment Platform Solution
DCI Online Payment Solution is a pre-developed generic e-commerce payment portal using the Internet to transmit information that would help agencies accept or disburse payments for various service fees. It can be done with the use of equipment such as computer desktops or laptops, mobile phones, and tablets with Internet connection, thus eliminating the long queue in processing payment at the agency's physical site.
2. Project Management Cloud-based Tool
This is a web application that stores project activities with corresponding status and issues. The tool would help manage DCI's projects and maximize efficiency by providing users access and status updating of assigned issues.



DBP Leasing Corporation's roots can be traced in 2005 when it started as NDC Maritime Equity Corporation whose purpose was to support the maritime transport policy of the government by implementing the RORO Terminal System (RRTS) via acquisition of RORO vessels for lease in line with the Medium Term Philippine Development Plan. In 2006, the name changed to NDC Maritime Leasing Corp. and became duly licensed as a financing company to focus on implementing finance leasing related activities for the Road RORO Terminal System of the Strong Republic Nautical Highway. In 2008, DBP acquired NMLC and was renamed DBP Maritime Leasing Corp. In 2014, DBP Leasing introduced additional financial services such as amortized commercial loan and receivable discounting and started to cater not only to the maritime industry but all types of industries critical to national development. New senior management, highly respected in the leasing and finance industry led by DBPLC President Danilo T. Reyes, came on board on December 2013.

By end 2013, DBP Leasing was heavily burdened with the maintenance expenses of ten repossessed and non-earning vessels which accounted for 36% of its total assets. Due to impairment loss and the high maintenance expense of the repo vessels, the company suffered losses from 2012-2014.

2015 was a turn-around year for the company as true to its slogan "A New Force in Leasing," DBP Leasing continued to make its mark in the leasing and financing industry by delivering an outstanding performance in 2015 that proved to be a remarkable follow-through to the noteworthy progress realized in 2014.

The Account Management Group took the lead by bringing in total production volume of P1.24-billion worth of new leases and loans, clearly surpassing its 2014 volume by a hefty 387%. This resulted in the huge expansion of its net credit portfolio to P1.85-billion, a 151% growth versus the previous year's level of P735.48-million. Consequently, total assets in 2015 ended at

P2.04-billion, which, compared to its total assets in 2014, shows a 69% increase.

Customer base likewise expanded further in 2015 as the company added 15 new customers into its portfolio of accounts with aggregate credit approvals of P1.69-billion, thereby attaining one of its developmental missions of making available its financial services to as many industries as possible, both private and public. Thus, at the end of 2015, DBP Leasing had already assisted more than 35 privately-owned companies as well as some government accounts across 15 industry sectors covering diverse businesses such as land and sea cargo and passenger transport, logistics, construction, manufacturing, electrical and air-conditioning systems, and chemicals. All accounts are on current status, a clear indication that the corporation's credit due diligence standards and practices are effective.

The higher credit portfolio caused gross income in 2015 to reach P106.5-million, an 89.45% increase over 2014's revenues of P56.22-million. Due to the prudent management of costs, particularly in the maintenance of its repossessed vessels, expenses went up by only 5%. These favourable developments enabled the corporation to attain a positive bottom line with a P25.78-million net income in 2015, a marked reversal from the net losses incurred from 2012 - 2014.

In 2015, the company recorded the highest increase in portfolio in the leasing and finance industry and improved its ranking in net income from No. 17 in 2014 to No. 10 in 2015.

The GCG had put its stamp of approval giving the company a 93.15% score on its 15 performance indicators and for the first time in its history, obtained its first ever Performance Based Bonus. Further, the company, also for the first time, remitted dividends to the coffers of the National Treasury.



DBPLC officers and staff led by President and CEO Danilo T. Reyes (seated, 4th from left)

DBPLC DIRECTORS

Chairperson	Alberto A. Lim
Vice Chairman	Jose A. Nuñez
Directors	Vaughn F. Montes
	Anthony T. Robles
	Mario B. Palou
	Dennis D. Decena
	Danilo T. Reyes

DBPLC SENIOR MANAGEMENT

President & CEO	Danilo T. Reyes
VP – Finance	Agnes Z. Bengco
VP – Operations	Ricardo O. Romero
AVP – RMLSG & SSG	Atty. Eric R. Cortes
AVP – AMG (Gov't Accounts)	Alex A. De Guzman

KEY FINANCIAL INDICATORS (In Php Millions)	2015	2014	2013
Leasing and Financing Portfolio (net)	P1,848.59M	P 735.48M	P 468.90M
Total Assets	2,042.32M	1,206.05M	987.58M
EBITDA	70.20M	23.69M	17.24M
Net Income (Loss)	25.78M	(54.19M)	(99.12M)
Stockholder's Equity	993.76M	847.97M	622.16M
% of ROPA to Total Assets	6.32%	13.41%	35.99%
Past Due Rate	0.88%	2.10%	3.48%

**AL AMANAH ISLAMIC INVESTMENT BANK OF THE PHILIPPINES**

AIIBP continued to fulfill its mandate within its limited resources in providing the financial services to its clients both from the Islamic and non Islamic communities in the Philippines.

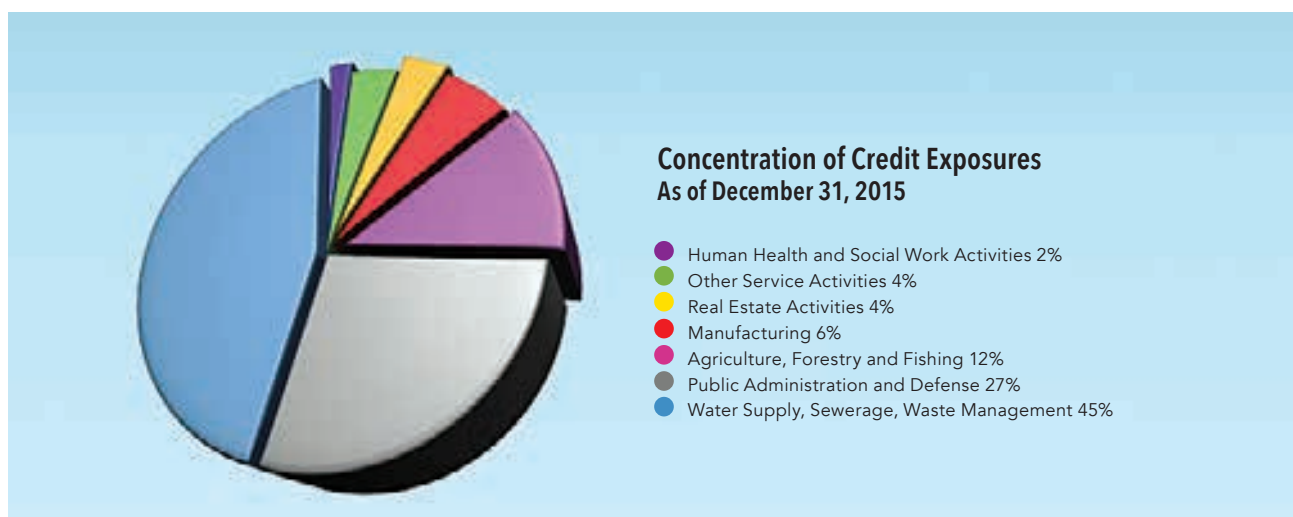
Despite uncertainties in the political arena and the challenges in market conditions, the Bank has continued

to pursue its mandate to provide an alternative platform for financial intermediation as an Islamic Bank.

Picking up the momentum which started in 2014, the Bank managed to sustain the steady growth in its resources and deposit base, altogether improving the balance sheet footing of the Bank. For the year, total resources increased by 11% to P779.07-million from P702.66-million in 2014, while total deposit liabilities closed at P402.29-million or an increase of 36.8% from P294.07-million the previous year. The net increase in total resources of 11% was largely attributable to deposit liabilities increasing by P108.22-million, which correspondingly drove the increase in cash and cash equivalents and other investments.



The officers and staff of AIIBP led by Chairman and Chief Executive Officer Isidro A. Sobrecarey (seated, 4th from left)



Operations and Income

The operations of the Bank ended the year with a total gross earnings increasing by 16% to P55.90-million from P48.13-million in 2014, yielding its highest gross earnings record in the last five years. Over the same period, the net loss of P23.54-million accordingly registered the lowest negative bottom line of the Bank. This year's Gross Earnings is significantly comprised of the non-recurring gain on sale of Real and Other Properties Acquired. On the other hand, the total expenditures of the Bank amounted to P79.44-million from P72.87-million in 2014.

The Bank's Capital Adequacy Ratio (CAR) in 2015 was 105.19% compared to 115.96% the previous year, significantly exceeding the BSP's minimum required ratio of 10 percent.

Comparatively with 2014, total gross earnings went up by 16% due to higher income from Treasury operations and from the non-recurring gain on sale of ROPA.

Loans

At year-end 2015, the Bank's total active credit portfolio is composed of Islamic financing and conventional

loans. This portfolio comprised exposure in the following industries: (1) Water Supply, Sewerage, Waste Management and Remediation Activities; (2) Public Administration, Defense, and compulsory social security; (3) Manufacturing; (4) Human Health and Social Work Activities; (5) Real Estate; (6) Wholesale and Retail Trade; (7) Agriculture, Hunting and Fishing; (8) Activities of Households for own use; and (9) Other Service Activities. From among the exposures, the portfolio of the Bank is highly concentrated on Water Supply, Sewerage, Waste Management and Remediation Activities industry (44.84%) and Public Administration and Defense (26.57%).

Deposits

The Bank had a 37% increase in its total deposit liabilities to P402.29-million from a previous year balance of P294.07-million. This notable increase in deposits is the net effect of: 26.2% decrease in Islamic deposits to P54.19-million from P73.38-million and the 58% likewise growth in conventional deposits to 348.10-million from P220.69-million.

DEPOSIT LIABILITIES BY TYPE (In Php Millions)				
	December 31		Increase (Decrease)	
AT YEAR END	2015	2014	Amount	Percentage
TOTAL	402.29	294.07	108.22	36.8%
Islamic	54.19	73.38	(19.20)	(26.2%)
Conventional	348.10	220.69	127.42	57.7%
TOTAL	402.29	294.07	108.22	36.8%
Private	197.24	174.26	22.98	13.2%
Government	205.05	119.81	85.24	71.2%
TOTAL	402.29	294.07	108.22	36.8%
Demand	230.87	143.94	86.93	60.4%
Savings	156.02	132.61	23.41	17.7%
Time Deposit	15.40	17.52	(2.12)	(12.1%)



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 1- Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Development Bank of the Philippines
Gil J. Puyat Avenue cor. Makati Avenue
Makati City

We have audited the accompanying financial statements of the Development Bank of the Philippines (DBP) and its subsidiaries (referred to as the "Group"), which comprise the statements of financial position as at December 31, 2015 and 2014, the consolidated statements of profit or loss and other comprehensive income, statements of changes in capital funds and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

In 2014, government securities holdings classified as Available for Sale (AFS) with face amount totaling P29.081 billion were sold to one and the same counterparty at a loss totaling P876.712 million. The same government securities series were bought back by the Bank at the same price and were booked under Held-to-Maturity. Such derecognition and reclassification is contrary to Philippine Accounting Standard (PAS) 39 because the Bank has retained substantially all the risk and rewards of ownership of the subject government securities and it resulted to the understatement of the Bank's assets and equity balances by P1.824 billion as of December 29, 2014 and the overstatement of assets and equity by P0.243 billion as at December 30, 2015.

The Bank's shareholdings in LGU Guarantee Corporation (LGUGC), DBP-Daiwa Securities Inc. (DBP-Daiwa), DBP Insurance Brokerage, Inc. (DIBI) were classified as Investment in Associates despite direct and indirect control, majority interests, significant influence and control, and interlocking Board seats. This is contrary to the provisions of the amended Philippine Accounting Standard (PAS) Nos. 27 and 28 and Philippine Financial Reporting Standard (PFRS) Nos. 10 and 12. Had the shareholdings been classified as a subsidiary, the assets of the Group would have increased by P245 million.

Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015 and CY 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

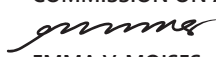
Other Matter

In our report dated July 31, 2015, we expressed an unmodified opinion that the 2014 financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014 and its financial performance and cash flows for the year then ended. However, as discussed in the basis for qualified opinion paragraph, the derecognition and reclassification of Available for Sale (AFS) Government Securities (GS) with face amount totaling P29.081 billion to Held-To-Maturity (HTM) using same-day-sale and purchase strategy is contrary to Philippine Accounting Standard (PAS) 39 and resulted to the understatement of both total assets and equity by the amount of P1.824 billion as at December 29, 2014. The 2014 financial statements were not restated to conform with PAS 39. Accordingly, our present opinion on the 2014 financial statements, as presented herein, is different from that expressed in our previous report.

Report on the Supplemental Information Required under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 37 to the 2014 and 2015 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


EMMA V. MOISES
Supervising Auditor
June 30, 2016

DEVELOPMENT BANK OF THE PHILIPPINES
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(In thousand pesos)

		Group		Parent	
	Note	2015	As restated 2014	2015	2014
<u>Resources</u>					
Cash and other cash items	7	3,043,421	2,754,635	3,029,525	2,736,300
Due from Bangko Sentral ng Pilipinas	7,8	90,504,709	104,327,504	89,998,279	103,898,378
Due from other banks	7	11,357,633	17,009,729	11,330,907	16,782,163
Interbank loans receivable	7,9	4,073,414	12,132,497	4,073,414	12,132,497
Securities purchased under agreement to resell	7	32,434,752	6,742,696	32,434,752	6,742,696
Financial assets at fair value through profit or loss	10	334,244	3,625,801	334,244	3,625,801
Financial assets available for sale - net	11,18	83,790,512	65,885,167	83,789,271	65,833,517
Financial assets held to maturity - net	12	72,391,953	69,136,836	72,374,882	69,128,158
Loans and receivables - net	13,18	198,985,266	181,259,269	197,453,977	180,844,995
Bank premises, furniture, fixtures and equipment - net	14	2,467,683	2,024,245	2,457,654	2,011,197
Investment Property - net	15,18	1,804,282	1,308,126	1,804,282	1,308,126
Equity investment in subsidiaries - net	16,18	-	-	1,668,230	1,548,230
Equity investment in associates and joint ventures - net	17	419,040	402,132	152,470	155,267
Non-current assets held for sale - net	18	150,467	574,387	146,724	570,642
Other resources - net	18,19	3,592,544	814,403	3,009,355	194,535
Total resources		505,349,920	467,997,427	504,057,966	467,512,502
<u>Liabilities and Capital Funds</u>					
<u>Liabilities</u>					
Deposits liabilities	21	324,294,172	293,683,401	324,007,472	293,531,828
Bills payable	22				
Official Development Assistance (ODA)		51,414,501	49,626,119	51,414,501	49,626,119
Non-ODA		50,181,606	35,834,048	49,318,037	35,566,900
		101,596,107	85,460,167	100,732,538	85,193,019
Bonds Payable	23	14,073,406	13,366,830	14,073,406	13,366,830
Due to Bangko Sentral ng Pilipinas/other banks		277	546	277	546
Manager's checks and demand drafts outstanding		137,393	267,775	136,717	267,147
Accrued taxes, interests and expenses		3,731,348	3,436,677	3,668,543	3,414,050
Unsecured subordinated debt	24a	15,633,646	15,627,231	15,633,646	15,627,231
Deferred credits and other liabilities	25	8,066,952	13,437,783	7,904,452	13,291,319
Total liabilities		467,533,301	425,280,410	466,157,051	424,691,970
<u>Capital Funds Attributable to the Equity Holder of DBP</u>					
Capital Stock	26	12,500,000	12,500,000	12,500,000	12,500,000
Other equity instrument - Hybrid Tier 1	24b	-	6,524,986	-	6,524,986
Retained earnings		31,047,607	28,860,122	31,145,981	28,976,314
Retained earnings reserves	27	247,946	247,654	227,946	227,654
Accumulated other comprehensive income/(loss)	28	(5,978,389)	(5,415,228)	(5,973,012)	(5,408,422)
		37,817,164	42,717,534	37,900,915	42,820,532
Non-controlling interest		(545)	(517)	-	-
Total capital funds		37,816,619	42,717,017	37,900,915	42,820,532
Total liabilities and capital funds		505,349,920	467,997,427	504,057,966	467,512,502

The Notes on pages 1 to 40 form part of these financial statements.

DEVELOPMENT BANK OF THE PHILIPPINES
STATEMENTS OF PROFIT OR LOSS

For the Years Ended December 31, 2015 and 2014
(In thousand pesos, except per share amounts)

		Group		Parent	
	Note	2015	As restated 2014	2015	2014
Interest income					
Loans and receivables		10,538,637	9,954,183	10,525,163	9,938,816
Financial assets - debt securities		6,169,052	5,813,955	6,168,560	5,813,723
Deposits with banks		1,069,862	887,372	1,027,186	877,015
Interbank loans receivable/Securities purchased under agreement to resell		312,568	424,686	312,085	422,853
		18,090,119	17,080,196	18,032,994	17,052,407
Interest expense					
Bills payable and other borrowings					
ODA Borrowings		2,323,816	2,259,012	2,323,816	2,259,012
Other Borrowings		2,411,164	2,293,172	2,395,985	2,282,005
		3,314,416	2,319,343	3,314,852	2,319,516
		8,049,396	6,871,527	8,034,653	6,860,533
Net interest income		10,040,723	10,208,669	9,998,341	10,191,874
Provision for impairment	18	266,338	609,118	251,739	563,101
Net interest income after provision for impairment		9,774,385	9,599,551	9,746,602	9,628,773
Other income					
Profit/(loss) from investment and securities trading		155,183	678,283	156,522	678,283
Foreign exchange profit/(loss)		1,419,907	316,800	1,419,906	312,282
Service charges, fees and commissions		554,936	455,253	552,392	449,922
Dividends - equity investments		852,429	464,936	862,208	491,643
Miscellaneous	29	604,373	770,441	484,748	641,077
		3,586,828	2,685,713	3,475,776	2,573,207
Other expenses					
Compensation and fringe benefits		3,227,731	2,968,032	3,070,272	2,832,058
Taxes and licenses	31, 37	1,353,051	1,185,919	1,338,731	1,177,985
Occupancy expenses		107,410	97,083	98,658	85,893
Other operating expenses	30	2,599,673	2,410,898	2,656,316	2,432,824
		7,287,865	6,661,932	7,163,977	6,528,760
Profit before tax		6,073,348	5,623,332	6,058,401	5,673,220
Provision for income tax	31	1,351,964	1,074,119	1,347,899	1,072,746
Profit for the year		4,721,384	4,549,213	4,710,502	4,600,474
Attributable to:					
Equity holder of DBP		4,721,412	4,549,243		
Non-controlling interest		(28)	(30)		
		4,721,384	4,549,213		
Earnings per share		37.77	36.39	37.68	36.80

The Notes on pages 1 to 40 form part of these financial statements.

DEVELOPMENT BANK OF THE PHILIPPINES
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014
(In thousands pesos)

		Group		Parent	
	Note	2015	As restated 2014	2015	2014
Profit for the Year		4,721,384	4,549,213	4,710,502	4,600,474
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Coupon payment of Hybrid Tier 1	24b	(495,300)	(481,554)	(495,300)	(481,554)
Items that may be reclassified subsequently to profit or loss:					
Revaluation of Hybrid Tier 1	24b	790,813	42,250	790,813	42,250
Net unrealized gains on securities		(780,674)	968,247	(780,676)	971,761
Translation adjustments		1,367	62		
Others					
Transaction Costs - HT1		(79,427)		(79,427)	
Currency Translation Diff./Revaluation Inc.		60	(25)		
		(563,161)	528,980	(564,590)	532,457
Total Comprehensive Income for the Year		<u>4,158,223</u>	<u>5,078,193</u>	<u>4,145,912</u>	<u>5,132,931</u>
Attributable to:					
Equity holder of DBP		4,158,251	5,078,223		
Non-controlling interest		(28)	(30)		
		<u>4,158,223</u>	<u>5,078,193</u>		

The Notes on pages 1 to 40 form part of these financial statements.

DEVELOPMENT BANK OF THE PHILIPPINES
STATEMENTS OF CHANGES IN CAPITAL FUNDS
For the Years Ended December 31, 2015 and 2014
(In thousand pesos, except per share amounts)

	Group										Parent			
	Attributable to Equity holder of DBP													
	Accumulated Other Comprehensive Income/ (Loss)										Accumulated Other Comprehensive Income/ (Loss)			
	Capital Stock (Note 26)	Other Equity Instrument - Hybrid Tier 1 (Note 24b)	Retained Earnings (As restated)	Retained Earnings Reserves (Note 27)	Non-Controlling Interest	Total	Capital Stock (Note 26)	Other Equity Instrument - Hybrid Tier 1 (Note 24b)	Retained Earnings (As restated)	Retained Earnings Reserves (Note 27)	Accumulated Other Comprehensive Income/ (Loss) (Note 28)	Retained Earnings Reserves (Note 27)	Accumulated Other Comprehensive Income/ (Loss) (Note 28)	Total
BALANCE AT DECEMBER 2012	12,500,000	6,524,986	27,370,125	248,085	(5,944,208)	40,698,493	12,500,000	6,524,986	27,441,219	228,085	(5,940,879)	228,085	(5,940,879)	40,753,411
Cumulative effect of prior period adjustments			6,138		8	6,146								
RESTATED BALANCE AT DECEMBER 31, 2013	12,500,000	6,524,986	27,376,263	248,085	(5,944,208)	40,704,639	12,500,000	6,524,986	27,441,219	228,085	(5,940,879)	228,085	(5,940,879)	40,753,411
Comprehensive income														
Net income			4,549,243			4,549,243			4,600,474			4,600,474		4,600,474
Other comprehensive income for the year	-	-	4,549,243	-	(30)	528,980					528,980		532,457	532,457
Total comprehensive income for the year						5,078,193			4,600,474		532,457		532,457	5,132,931
Transaction with owner														
Cash dividends - 2013 (P23.58 per share)			(2,947,087)			(2,947,087)			(2,947,087)					(2,947,087)
Transfer to (from) Surplus Free			431	(431)		-			431	(431)				-
Trust reserve			(118,728)			(118,728)			(118,723)					(118,723)
Adjustments														
BALANCE AT DECEMBER 31, 2014	12,500,000	6,524,986	28,860,122	247,654	(5,415,228)	42,717,017	12,500,000	6,524,986	28,976,314	227,654	(5,408,422)	227,654	(5,408,422)	42,820,532
Comprehensive income														
Net income			4,721,412		(28)	4,721,384			4,710,502		(564,590)		(564,590)	4,710,502
Other comprehensive income for the year						(563,161)					6,843		6,843	(564,590)
Total comprehensive income for the year														
Redemption of Hybrid Tier 1	-	-	4,721,412	-	(28)	4,158,223	-	-	4,710,502	-	(564,590)	-	(564,590)	4,145,912
Transaction with owner														
Cash dividends - 2014 (P20.28 per share)			(2,535,543)			(2,535,543)			(2,535,543)					(2,535,543)
Liquidation - HK Remittance Center			6,843			6,843								
Transfer to (from) Surplus Free														
Trust reserve			(292)	292		-			(292)	292				-
Adjustments														
Settlement of claim on Alfa Creditors Fund - Trust Notes			(5,000)			(5,000)			(5,000)					(5,000)
Reimbursement of DBP MC's expenses			65			65								
BALANCE AT DECEMBER 31, 2015	12,500,000	-	31,047,607	247,946	(5,978,389)	37,816,619	12,500,000	-	31,145,981	227,946	(5,973,012)	227,946	(5,973,012)	37,900,915

The Notes on pages 1 to 40 form part of these financial statements.

DEVELOPMENT BANK OF THE PHILIPPINES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
(In thousand pesos)

		Group		Parent	
	Note	2015	Restated 2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit before tax		6,073,348	5,623,332	6,058,401	5,673,220
Adjustments for:					
Depreciation		242,244	249,782	230,879	225,775
Amortization		109,450	114,456	106,913	112,318
Provision for impairment losses	18	266,338	609,118	251,739	563,101
(Gain)/Loss from HFT Marking to Market		2,755	2,695	2,755	2,695
FX (Gain)/Loss on revaluation		(491,929)	(147,943)	(491,929)	(147,943)
Other income/expenses		(1,425,623)	(1,234,178)	(1,427,055)	(1,234,210)
Operating income before changes in operating assets and liabilities		4,776,583	5,217,262	4,731,703	5,194,956
Changes in operating assets and liabilities:					
(Increase) Decrease in operating assets:					
Financial assets at fair value thru profit or loss		3,308,285	(3,155,390)	3,308,285	(3,155,390)
Loans and receivables		(15,021,190)	(19,779,744)	(13,890,376)	(19,712,641)
Non-current assets held for sale		503,816	292,452	503,815	291,540
Other assets		(3,087,559)	6,330,372	(3,115,588)	6,146,233
Increase (Decrease) in operating liabilities:					
Deposit liabilities		29,384,108	41,904,927	29,248,981	41,957,581
Due to Bangko Sentral ng Pilipinas/other banks		(269)	(212)	(269)	(212)
Manager's checks and demand drafts outstanding		(130,382)	80,457	(130,429)	80,436
Accrued taxes, interest and expenses		292,504	207,677	252,325	211,326
Deferred credits and other liabilities		(5,756,723)	8,983,489	(5,772,759)	9,164,117
Cash provided by from operating activities		14,269,173	40,081,290	15,135,688	40,177,946
Income taxes paid		(1,269,941)	(1,583,465)	(1,265,652)	(1,582,092)
Settlement of claim on Alfa Creditors Fund - Trust Notes		(5,000)	(33,956)	(5,000)	(33,956)
Net cash provided/(used) in operating activities		12,994,232	38,463,869	13,865,036	38,561,898
CASH FLOWS FROM INVESTING ACTIVITIES					
(Increase) Decrease in:					
Financial assets available for sale		(15,953,879)	43,635,379	(16,004,129)	43,631,826
Financial assets held to maturity		(3,008,316)	(40,785,703)	(2,999,928)	(40,782,368)
Equity investment in subsidiaries		-	-	(120,000)	(280,000)
Equity investment in associates and joint ventures		(19,705)	(25,045)	-	-
Bank premises, furnitures, fixtures and equipment		(631,140)	(120,437)	(629,186)	(130,731)
Investment properties		(601,442)	(297,772)	(601,442)	(283,687)
Intangible assets		(156,060)	(108,420)	(155,357)	(108,384)
Net cash provided/(used) in investing activities		(20,370,542)	2,298,002	(20,510,042)	2,046,656
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (Decrease) in:					
Borrowings		14,907,797	(14,332,046)	14,311,376	(14,287,309)
Cash dividends paid		(2,535,543)	(2,947,087)	(2,535,543)	(2,947,087)
Redemption of Hybrid Tier 1		(6,075,550)	-	(6,075,550)	-
Coupon Payment for DBP Hybrid Tier 1		(495,300)	(481,554)	(495,300)	(481,554)
Liquidation of HK Remittance Center		6,903	-	-	-
Net cash provided/(used) in financing activities		5,808,307	(17,760,687)	5,204,983	(17,715,950)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,568,003)	23,001,184	(1,440,023)	22,892,604
Cash and cash equivalents					
Beginning of year		142,945,381	119,944,197	142,270,464	119,377,860
End of year		141,377,378	142,945,381	140,830,441	142,270,464

The Notes on pages 1 to 40 form part of these financial statements.

MANAGEMENT COMMENT TO AUDITOR'S REPORT

- (1) The Commission on Audit, as the Independent Auditor of the Bank, represented by Resident Auditor Emma V. Moises, expressed a "Qualified Opinion" " x x x on the fairness of presentation of the financial statements of DBP for the years 2015 and 2014 in accordance with applicable Philippine Financial Reporting Standards and Philippine Accounting Standards x x x ".
- (2) The so-called "Qualified Opinion" is based upon two (2) issues, namely:
 - 2.1 "The de-recognition and re-classification of Government Securities with total face value of PhP29.081 billion from 'Available for Sale' to 'Held-To-Maturity' using same-day-sale and purchase strategy is contrary to Philippine Accounting Standards (PAS) 39 x x x ".

Bank comment:

Philippine Accounting Standards (PAS) 39 establishes the standard to recognize a "true sale" which, in turn, is premised on the seller having fully transferred both the legal and economic title to a buyer.

In the case pending before the Securities and Exchange Commission, and in all other cases involving the validity of the sale-and-purchase transactions of the subject Government Securities, it has been stressed that the said transactions were true and arm's-length transactions. Thus, these transactions were booked in the respective parties' books of accounts (the counterparty was First Metro Investment Corporation). Accordingly, until a competent authority rules otherwise, it cannot be concluded that the same violates PAS 39. The Bank will defer to the final and executory ruling on the matter by the competent authority.

- 2.2 "The Bank's shareholdings in LGU Guarantee Corporation (LGUGC), DBP-Daiwa Securities, Inc. (DBP-Daiwa) and DBP Insurance Brokerage, Inc. (DIBI) were classified as Investment in Associates despite majority interests, significant influence and control, and interlocking Board seats contrary to the provisions of Philippine Accounting Standard (PAS) nos. 27 and 28 and Philippine Financial Reporting Standard (PFRS) Nos. 10 and 12, resulting in the understatement of the Bank's assets by PhP245-Million."

Bank comment:

The Bank's shareholdings in these named companies are classified as Investment in Associates because the levels of the Bank's shareholdings do not reach those required for these companies to be considered as subsidiaries of the Bank. DBP's shareholding in the foregoing corporations is as follows:

Name of Corporation	% Ownership
LGU Guarantee Corporation (LGUGC)	47.90%
DBP-Daiwa Securities (DBP-Daiwa)	23.33%
DBP Insurance Brokerage, Inc. (DIBI)	40.01%

PRODUCTS AND SERVICES

CORPORATE BANKING

1. Term Loans – Credit Transactions with a specific stipulated limit and expiry date of more than one year. It is not reusable, is liquidating in nature through a repayment program and payable in full at maturity date. Financing may either be bilateral or syndicated; may be in the form of Bonds and Corporate Notes issuances.
2. Short Term Loans/Credit Lines – Credit facility available to a client for use and reuse up to the specified limit unless amended, revised or revoked and has maturity of one year or less. These are utilized to finance specific components of a borrower's working capital requirements. Credit lines available are as follows:
 - a. Revolving Promissory Note Line (RPNL) – a standby facility for working capital requirements. Drawdown against the line with a term of up to one year and are payable upon the maturity of Promissory Note. The specific purpose may include, among others, the following:
 - receivable discounting
 - increase in account receivables
 - inventory build up
3. Letter of Credit /Trust Receipt – a facility for working capital against trade documents. Drawn in compliance with the letter of credit terms.
4. Standby Letter – a special type of LC covered by BSP MORB 347 and International Trade Law ISP 98. Standby LC may either be in the form of a guarantee or payment.
5. Export Packing Credit Line - a loan given to the exporter for the purchase of raw materials or for the manufacture of goods intended for sale. It is a pre-shipment financing facility where an exporter can borrow working capital for export productions, the term of the loan shall not exceed the expiry of the date of the LC.
6. Export Advance – payments/remittances received before shipping, including Prepayment and Red Clause advances. Bank draft/telegraphic transfer, buyer's checks or acceptable foreign currency notes may be used in prepayment/export advance but for buyer's checks, the same shall be cleared before shipment.
7. Export LC Advising – advise the arrival of LC and release to the exporter upon payment of bank fees without obligation on the part of the bank.
8. Back to Back Deals – Loans secured by placements or deposits (1:1 loans).
9. Bill Purchased Line – Facility wherein the Bank purchases local checks/negotiable instruments for collection from other Banks which are either encashed or credited to the customer's accounts.

DEVELOPMENT BANKING

Financing Infrastructure, Environment and Logistics Development (FIELD)

1. Environment Program
 - a. Green Financing Program
2. Infrastructure and Logistics Programs
 - a. Connecting Rural Urban Inter-modal System Efficiently
 - b. Financing Utilities for Sustainable Energy Development
 - c. Financing Program for Water Supply

Financing Inclusive Development (FIND)

1. Social Services and Community Development Programs
 - a. Sustainable Health Care Investment Program
 - b. Residential Real Estate Financing Program
 - c. DBP Educational Fund Program
2. Micro, Small & Medium Enterprises Development Programs
 - a. Sustainable Enterprises for Economic Development
 - Retail Lending for Micro and Small Enterprises
 - Medium Enterprise and Other Business

- Enterprise Lending
 - Credit Surety Fund Credit Facility
 - Overseas Filipino Workers – Reintegration Program
 - Inclusive Lending for Aspiring Women Entrepreneurs Program
 - DBP Bankability Enhancement for SETUP Technopreneurs Program

3. Agribusiness Development Programs
 - a. Sustainable Agribusiness Financing Program
 - Sustainable Agribusiness Financing Program for the Dairy Industry
 - b. Tree Plantation Financing Program
 - c. DBP Forest Program
4. Corporate Social Responsibility Programs
 - a. DBP Endowment for Education Program
 - b. DBP Forest Program

TRUST BANKING

1. Trust
 - a. Unit Investment Trust Fund (UITF)
 - Unlad Pamahalaan GS Money Market Fund
 - Unlad Kawani Money Market Fund
 - Unlad Pribadong Institusyon
 - Unlad Pribadong Institusyon Money Market Fund
 - b. Institutional Trust
 - Employee Benefit
 - Pre-need Account
 - c. Individual Trust
 - Personal Trust Account
 - Living Trust: Revocable Living Trust and Irrevocable Living Trust
 - Personal Pension Fund
 - Personal Retirement Fund
2. Other Fiduciary Services
 - a. Court Trust
 - Administratorship
 - Executorship
 - Guardianship
 - b. Legislated and Quasi-judicial Trust
 - Public Trusteeship
 - c. Property Administratorship
 - d. Corporate Fiduciary Services
 - Mortgage Trust Indenture/Collateral Trust Indenture
 - Facility/Loan Agency
 - Transfer Agency
 - Depository and Reorganization
 - e. Escrow
 - f. Safekeeping
 - g. Life Insurance Trust
3. Agency
 - a. Institutional Agency
 - Employee Benefit
 - Pre-need Account
 - Investment Management Account (IMA-Institutional)
 - Peso
 - Foreign Currency
 - b. Individual Agency
 - Personal Pension Fund
 - Personal Retirement
 - Investment Management Account (IMA-Personal)
 - Peso
 - Foreign Currency
4. Advisory/Consultancy
5. Special Purpose Trust

CAPITAL MARKETS DEVELOPMENT

1. Arranger and Underwriter of Corporate and Public Sector Fixed Income Securities
2. Arranger of Corporate Loans

INVESTMENT BANKING SERVICES

1. Transaction/Financial Advisory for:
 - a. Corporate Finance
 - b. Mergers & Acquisitions
 - c. Privatization
 - d. Public-Private Partnership (PPP) Projects
2. Arranger of Limited Recourse/ Project Finance Loans

TRADE PRODUCTS

1. Import
 - a. Import Letter of Credit (L/C)
 - b. Foreign Standby LC
 - c. Document Against Payment (D/P)
 - d. Documents Against Acceptance (D/A)
 - e. Open Account (OA)/Telegraphic Transfer (T/T)
 - f. Direct Remittance (DR)
 - g. Advance Payment
2. Export
 - a. Export LC Advising and Confirmation
 - b. Export LC Negotiation
 - B1. Export Bills Purchase (EBP)
 - B2. Outward Bills for Collection (OBC)
 - c. Document Against Payment (D/P)
 - d. Documents Against Acceptance (D/A)
 - e. Open Account (OA)/Telegraphic Transfer (T/T)
3. Domestic
 - a. Domestic LC
 - b. Domestic Standby LC
4. Other Trade Services
 - a. Shipment Bond/Bank Guarantee Issuance
 - b. Advanced Release/Airway Bill Endorsement
 - c. Collection of Custom Duties (Import & Export)
5. Trade Credit Facilities
 - a. Trust Receipt Financing
 - b. Export Advance/ packing Credit Loan vs. LC

REMITTANCE PRODUCTS

1. EC Card
An interest-bearing ATM savings account designed for OFWs and their beneficiaries featuring zero initial deposit, zero maintaining balance, and accessible from any BancNet ATMs, as well as online through DBP's EC Banking portal at www.dbp.ph.
2. EC Credit to Account
Immediate 24/7 credit to beneficiary's DBP account
3. EC Bank to Bank
Fast and worry-free crediting to any bank account in the Philippines
4. EC Door to Door (DTD)
Delivery of remittance in cash direct to the homes of beneficiaries. Available in over 1,000 cities and municipalities nationwide.
5. EC Cash Pick-up (CPU)
For unbanked beneficiaries, remittances can be conveniently claimed in cash at any DBP branch or more than 4,000 accredited cash outlets nationwide.
6. Overseas Collection Arrangement (OCA)
Collection of premiums and loan amortizations for payment to Social Security System (SSS), Philhealth, DOLE, POEA, OWWA, real estate companies, and other institutions.

TREASURY PRODUCTS

1. Government Securities
 - a. Peso
 - Treasury Bills
 - Fixed Rate Treasury Notes
 - Retail Treasury Bonds
 - b. Dollar
 - Republic of the Philippines Bonds
2. Corporate Bonds/ Bank Notes (subject to availability)
 - a. Peso
 - b. US Dollar

3. DBP Issued Capital Notes (subject to availability)
 - a. Peso
 - b. US Dollar
4. Foreign Exchange
 - a. Foreign Exchange Dealership
 - b. Outright FX Forward

BRANCH BANKING SERVICES

1. Deposit
 - a. Savings Account
 - b. Current Account
 - c. Pensioner's Account
 - d. Young Earners' Savings Account
 - e. Wisdom Account (Peso & US Dollar)
 - f. Premier Payroll Account with Payroll Savings Plan
 - g. Zero Balance Account (for eGov, eFPS/EPSPayments and Trust Banking Group Clients)
2. Term Deposit
 - a. Option Savings
 - b. Special Savings
 - c. Regular Time Deposit (Peso & US Dollar)
 - d. Wisdom Time Deposit (Peso & US Dollar)
 - e. High Earner Time Deposit (Peso & US Dollar)
 - f. Special Investor's Resident Visa
3. Loans
 - a. Term Loans
 - b. Omnibus Line
 - c. Short Term Loans
 - d. Revolving Promissory Note Line (RPNL)
 - e. Back to Back Loans
 - f. Bills Purchase Line
 - g. Trade Products/Services
 - h. Letter of Credit/Trust Receipt
 - i. Standby Letter of Credit (SBL)
 - j. Export Packing Credit Line
 - k. Export Advance
 - l. EC Credit Salary Loan
4. Electronic Banking
 - a. DBP ATM Visa Card
 - b. DBP Gift Card
 - c. DBP Prepaid Card (Reloadable)
 - d. Point-of Sale for Merchants
 - e. Internet Payment Gateway for Merchants
 - f. Bills Payment Facility for Merchants
 - g. eGov (PhilHealth, SSS, Pag-IBIG)
 - h. Electronic Payment System / eFPS – BIR
 - i. Bills Payment via DBP ATM and DBP ATM Visa Card
5. Fund Transfer
 - a. Manager's Check
 - b. Foreign Currency Denominated Bank Draft
 - c. Philippine Domestic Dollar Transfer System (PDDTS)
 - d. Society for Worldwide Interbank Financial Telecommunication (SWIFT)
 - e. Real Time Gross Settlement - Domestic (RTGS)
 - f. Electronic Peso Clearing Settlement - Domestic (EPCS)
 - g. Agent of Asia United Bank Inward Remittance Service
 - h. DBP Quick Cash Remittance
 - i. Interim Remittance System (IRS)
6. Special / Other Services
 - a. Authorized Agent Bank of the Bureau of Internal Revenue
 - b. Acceptance of PhilHealth and SSS contributions/ payments
 - c. Acceptance of Over-the-Counter Bills Payments for PLDT and SMART subscribers
 - d. Deposit Pick-up Delivery Service
 - e. Payroll Servicing
 - f. Servicing of Government's Modified Disbursement Scheme (MDS)
 - g. NCO collection for the Bureau of the Treasury
 - h. Central Posting of Internal Revenue Allotment (CePIRA)
 - i. Debit to One Credit to All Deposit Facility (DOCA)
 - j. Credit to One Debit to All Deposit Facility (CODA)
 - k. Payroll Servicing
 - l. Foreign Currency Exchange Dealership (Non-Trade)

DBP BRANCH NETWORK

REGIONAL MARKETING CENTER – NORTHEASTERN LUZON

Second Floor, DBP Building, Maharlika Highway corner Arranz Street, Osmena, City of Ilagan, Isabela 3300
Fax No. (078) 624-0877
Direct Line (078) 624-0877 (078) 624-1380
Email: rmc-nel@dbp.ph

DBP Aparri

DBP Building, Maharlika Highway, Macanaya District, Aparri, Cagayan 3515
Fax No. (078) 888-2066
Direct Line (078) 888-2066 (078) 822-8291
Email: aparri@dbp.ph

DBP Cabarroguis

LBP Building, Capitol Hills, San Marcos, Cabarroguis, Quirino
Email: cabarroguis@dbp.ph

DBP Ilagan

Ground Floor, DBP Building, Maharlika Highway corner Arranz Street, Osmena, City of Ilagan, Isabela 3300
Fax No. (078) 624-2145
Direct Line (078) 624-2145
Email: ilagan@dbp.ph

DBP Santiago

Purok 7, Maharlika Highway, Villasis, Santiago City, Isabela 3311
Fax No. (078) 305-0905
Direct Line (078) 305-0916 (078) 305-0405
Email: santiago@dbp.ph

DBP Solano

DBP Building, Burgos Street, Quezon, Solano, Nueva Vizcaya 3709
Fax No. (078) 326-6087
Direct Line (078) 326-6087 (078) 326-6096 (078) 326-8007
Email: solano@dbp.ph

DBP Tabuk

DBP Building, Provincial Road, Dagupan Centro, Tabuk City, Kalinga 3800
Email: tabuk@dbp.ph

DBP Tuguegarao

DBP Building, Burgos Street corner Arellano Street, Centro, Tuguegarao City, Cagayan 3500
Fax No. (078) 844-1957
Direct Line (078) 844-1957 (078) 844-1828 (078) 844-2386
Email: tuguegarao@dbp.ph

REGIONAL MARKETING CENTER – WESTERN LUZON

M. H. del Pilar Street, Dagupan City, Pangasinan 2400
Fax No. (075) 523-7835
Direct Line (075) 523-7836 (075) 529-5490
Email: rmc-nwl@dbp.ph

DBP Baguio

Session Road corner Perfecto Street, Baguio City 2600
Fax No. (074) 442-5307
Direct Line (074) 442-5305 (074) 442-5308 (074) 442-7109
Email: baguio@dbp.ph

DBP Dagupan

M. H. del Pilar Street, Dagupan City, Pangasinan 2400
Fax No. (075) 522-2696
Direct Line (075) 522-0986 (075) 522-0597 (075) 515-4403
Email: dagupan@dbp.ph

DBP Laoag

A.G. Tupaz Avenue, Laoag City, Ilocos Norte 2900
Fax No. (077) 772-1503
Direct Line (077) 772-0234 (077) 772-116 (077) 771-4092
Email: laoag@dbp.ph

DBP San Fernando (LU)

Lueco Building II, Quezon Avenue, San Fernando, La Union 2500
Fax No. (072) 242-1049
Direct Line (072) 700-0101 (072) 242-1049 (072) 242-1664
Email: sfdo@dbp.ph

DBP Vigan

L. Florentino Street, Vigan City, Ilocos Sur 2700
Fax No. (077) 674-2501
Direct Line (077) 674-2502 (077) 674-2503
Email: vigan@dbp.ph

REGIONAL MARKETING CENTER – CENTRAL LUZON

Second Floor, Doña Isa Fel Building, Dolores, McArthur Highway, City of San Fernando, Pampanga 2000
Fax No. (045) 963-1231
Direct Line (045) 961-0003 (045) 961-4782
Email: rmc-cl@dbp.ph

DBP Balanga

Don Manuel Banzon Avenue, Balanga, Bataan 2100
Fax No. (047) 237-2073
Direct Line (047) 237-6654 (047) 237-3589
Email: balanga@dbp.ph

DBP Baler

National Highway, Barangay Suklayin, Baler, Aurora Province 3200
Direct Line (042) 722-0065 (042) 724-0007
Email Address: baler@dbp.ph

DBP Cabanatuan

Burgos Avenue corner Gabaldon Street, Cabanatuan City, Nueva Ecija 3100
Fax No. (044) 464-3536
Direct Line (044) 463-1252 (044) 600-2004 (044) 600-0703
Email: cabanatuan@dbp.ph

DBP Clark

Pavillion 1, Berthaphil III Clark Center, Jose Abad Santos Avenue, Clark Freeport Zone 2023
Fax No. (045) 499-1652
Direct Line (045) 499-1650 (045) 499-1649
Email: clark@dbp.ph

DBP Malolos

Paseo Del Congreso, Barangay Catmon, City of Malolos, Bulacan
Fax No. (044) 796-0324
Direct Line (044) 796-0325 (044) 760-1156 (044) 662-1589
Email: malolos@dbp.ph

DBP San Fernando (P)

Doña Isa Fel Building, Dolores, McArthur Highway, City of San Fernando, Pampanga 2000
Fax No. (045) 961-5845
Direct Line (045) 961-8059 (045) 961-5674 (045) 961-6950
Email: sanfernando-pampanga@dbp.ph

DBP Subic

Ground Floor, Hee-Mang Building, Lot 3, Greenwoods Park, CBD Area, Subic Bay Freeport Zone 2222
Fax No. (047) 252-3090
Direct Line (047) 252-3093 (047) 252-3091
Email: subic@dbp.ph

DBP Tarlac

Macabulos Drive, Tarlac, Tarlac 2300
Fax No. (045) 982-0885
Direct Line (045) 982-6024 (045) 982-0406 (045) 982-6038
Email: tarlac@dbp.ph

DBP Valenzuela

253-A McArthur Highway, Karuhatan, Valenzuela City 1441
Fax No. 294-9906
Direct Line 294-9823 294-95-41
Email: valenzuela@dbp.ph

REGIONAL MARKETING CENTER – METRO MANILA

DBP Building, Commonwealth Avenue, Diliman, Quezon City 1121
Fax No. 920-4717
Direct Line 920-4781 920-4903 920-4894
Email: rmc-mm1@dbp.ph

DBP Alabang

Unit 101, Ground Floor, Admiralty Realty Corp., 1101 Madrigal Business Park, Alabang-Zapote Road, Alabang, Muntinlupa City 1799
Fax No. 552-92-15
Direct Line 552-9216 Local 102 552-9218 Local 107 552-9219 Local 101
Email: alabang@dbp.ph

DBP Antipolo

JMK Building, Circumferential Road, P. Oliveros Street, Antipolo City
Fax No. 661-8113
Direct Line 661-8112 661-8115
Email: antipolo@dbp.ph

DBP Caloocan

Caloocan Commercial Complex, A. Mabini Street, Caloocan City
Direct Line 294-0075 294-9329 294-8894
Email: caloocan@dbp.ph

DBP Camp Aguinaldo

Ground Floor, Hen. Antonio Luna Hall, Veterans Compound, Camp Emilio Aguinaldo, EDSA, Quezon City 1110
Direct Line 995-0383 913-6059 913-6017
Email: caguinaldo@dbp.ph

DBP Commonwealth

DBP Building, Commonwealth Avenue, Diliman, Quezon City 1121
 Fax No. 920-4898
 Direct Line 926-1686
 920-4893
 920-4708

DBP Makati - F. Zobel

Ground Floor, Lasala Building II, Lot 12 Block 1, 1 F. Zobel Street, Barangay Poblacion, Makati City
 Fax No. 556-1100
 Direct Line 556-1110
 552-9227
 Local 102
 Email: makati@dbp.ph

DBP Mandaluyong

Jo-Cel Building, 29 San Roque Street, Mandaluyong City
 Fax No. 576-6430
 Direct Line 576-6441
 576-6427
 576-6456
 Email: mandaluyong@dbp.ph

DBP Manila Cash Unit

Ground Floor, W. Godino Building, No. 350 A. Villegas Street, Ermita, Manila 1000
 Fax No. 525-8672
 Direct Line 525-8669
 Email: manila@dbp.ph

DBP Manila - Nakpil

1804 Leticia Building, Julio Nakpil Street corner Taft Avenue, Malate, Manila
 Fax No. 523-2854
 Direct Line 523-3412
 Email: nakpil@dbp.ph

DBP Marikina

No. 37 corner Dragon and Gil Fernando Avenue, Midtown Subdivision, San Roque, Marikina City 1801
 Fax No. 477-6925
 Direct Line 477-6922
 477-6923
 Email: marikina@dbp.ph

DBP Muntinlupa

34 National Road, Putatan, Muntinlupa City 1702
 Fax No. 861-5398
 Direct Line 861-5935
 861-5397
 861-5934
 Email: muntinlupa@dbp.ph

DBP Parañaque

Unit 14-15, Ground Floor, Aseana Power Station, Macapagal Boulevard corner Bradco Avenue, Parañaque City
 Fax No. 478-6783
 Direct Line 519-0645
 478-6179
 Email: paranaque@dbp.ph

DBP Pasay

Centro Buendia Building, Sen. Gil Puyat corner Tramo Street, Pasay City
 Direct Line 219-5066
 219-4968
 219-5013
 Email: pasay@dbp.ph

DBP Pasig

Pacific Center Building, Unit 102, No. 33 San Miguel Avenue, Ortigas Center, Pasig City
 Fax No. 576-6272
 Direct Line 576-6274
 576-6292
 576-4098
 Email: pasig@dbp.ph

DBP Quezon Avenue

Ground Floor, RR7 BIR Building, Scout Santiago Street corner Quezon Avenue, Quezon City 1104
 Fax No. 371-2395
 Direct Line 371-2308
 374-1647
 371-2396
 Email: quezonave@dbp.ph

DBP Quezon City

Ground Floor, Medical Arts Building, Philippine Heart Center for Asia, East Avenue, Quezon City 1104
 Fax No. 928-0120
 Direct Line 426-2246
 426-2245
 927-9383
 Email: quezoncity@dbp.ph

DBP San Juan

Unit GF-1, Harmonia Center, Ortigas Avenue, Greenhills West, San Juan City
 Fax No. 621-9813
 Direct Line 621-9803
 621-9480
 621-9491
 Email: sanjuan@dbp.ph

DBP Taguig

Ground Floor, Unit 5, The Trade & Financial Tower, 7th Avenue corner 32nd Street, Bonifacio Global City, Taguig
 Fax No. 478-6906
 Direct Line 478-6904
 478-6483
 478-6905
 Email: taguig@dbp.ph

DBP Taguig - Tuktukan

BSJE Building, No. 9 Gen. Luna Street, Barangay Tuktukan, Taguig City
 Direct Line 532-7661
 532-7670
 Email: taguig-tuktukan@dbp.ph

REGIONAL MARKETING CENTER – SOUTHERN TAGALOG

Second Floor, DBP Building, Merchan Street, Lucena City 4301
 Fax No. (042) 373-4404
 Direct Line (042) 373-1917
 (042) 373-4404
 (042) 373-4274
 Email: rmc-st@dbp.ph

DBP Bacoor

Unit 2 Sidcor Building, Molino Boulevard, Bayanan, Bacoor City, Cavite
 Fax No. (046) 435-0445
 Direct Line (046) 435-0442
 (046) 435-0445
 Email: bacoor@dbp.ph

DBP Batangas

Sambat, Kumintang Ibaba, Batangas City
 Fax No. (043) 702-3378
 Direct Line (043) 702-3400
 Email: batangas@dbp.ph

DBP Calapan

Roxas Drive, Sto. Nino, Calapan City, Oriental Mindoro 5200
 Fax No. (043) 441-0217
 Direct Line (043) 288-4399
 Email: calapan@dbp.ph

DBP Dasmariñas

Km. 30 E. Aguinaldo Highway, Dasmariñas, Cavite 4114
 Fax No. (046) 416-1390
 Direct Line (046) 416-1389
 (046) 850-3637
 Email: dasmarinas@dbp.ph

DBP Lipa

No. 2 C.M. Recto Avenue, Lipa City, Batangas 4217
 Fax No. (043) 756-4217
 Direct Line (043) 756-4216
 Email: lipa@dbp.ph

DBP Lucena

Merchan Street, Lucena City 4301
 Fax No. (042) 373-0134
 Direct Line (042) 373-0190
 (042) 373-0986
 Email: lucena@dbp.ph

DBP Puerto Princesa

Ground Floor, Empire Suites Hotel, Rizal Avenue, Puerto Princesa City, Palawan 5300
 Fax No. (048) 433-2358
 Direct Line (048) 433-2538
 Email: ptoprincesa@dbp.ph

DBP San Jose

Rizal Street corner Quirino Street, San Jose, Occidental Mindoro 5100
 Direct Line (043) 491-2073
 (043) 491-2024
 Email: sanjose@dbp.ph

DBP Santa Cruz

A. Bonifacio corner F. Sario Streets, Poblacion IV, Sta. Cruz, Laguna
 Fax No. (049) 501-5132
 Direct Line (049) 501-5142
 Email: stacruz@dbp.ph

DBP Santa Rosa

Maerix Terrace Building, Rizal Boulevard, Barangay Tagapo, City of Santa Rosa, Laguna 4026
 Fax No. (049) 534-2820
 Direct Line (049) 534-2821
 Email: starosa@dbp.ph

REGIONAL MARKETING CENTER – BICOL

Second Floor, DBP Naga Branch Building, Panganiban Drive, Naga City 4400
 Fax No. (054) 472-4727
 Direct Line (054) 472-1556
 (054) 472-4727
 (054) 472-4728
 Email: rmc-bicol@dbp.ph

DBP Daet

Magallanes Iraya Street, Daet, Camarines Norte 4600
 Fax No. (054) 440-0765
 Direct Line (054) 440-0762
 Email: daet@dbp.ph

DBP Iriga

Ground Floor, LRDC Building, Msgr. Lanuza Street, San Francisco, Iriga City
 Fax No. (054) 881-7364
 Direct Line (054) 299-7570
 (054) 299-7569
 (054) 459-1208
 Email: iriga@dbp.ph

DBP Legazpi

Quezon Avenue, Legazpi City 4500
 Fax No. (052) 480-7081
 Direct Line (052) 820-2512
 (052) 480-7843
 (052) 820-1961
 Email: legaspi@dbp.ph

DBP Masbate

Corner Rosero and Quezon Streets, Masbate, Masbate 5400
 Fax No. (056) 333-2236
 Direct Line (056) 333-4073
 Email: masbate@dbp.ph

DBP Naga

Panganiban Drive, Naga City 4400
 Fax No. (054) 472-4766
 Direct Line (054) 472-0641
 (054) 472-5778
 Email: naga@dbp.ph

DBP Sorsogon

ACM Building, Corner
Burgos and Rizal Streets,
Sorsogon City 4700
Fax No. (056) 421-6876
Direct Line (056) 421-6876
(056) 421-5580
(056) 211-2079
Email: sorsogon@dbp.ph

DBP Virac

Old Capitol Building, Rizal
Avenue corner Eustaquio Street,
Sta. Elena, Virac, Catanduanes
Direct Line (052) 811-4116
(052) 811-2870
Email: virac@dbp.ph

**REGIONAL MARKETING
CENTER – EASTERN VISAYAS**

Second Floor, DBP Building,
Corner Zamora and
Paterno Streets, Tacloban
City, Leyte 6500
Fax No. (053) 325-2961
Direct Line (053) 325-2958
(053) 325-2960
Email: rmc-ev@dbp.ph

DBP Borongan

E. Cinco Street, Barangay
C, Borongan City,
Eastern Samar 6800
Fax No. (055) 261-2168
Direct Line (055) 560-9080
(055) 261-2021
Email: borongan@dbp.ph

DBP Catarman

390 J.P. Rizal Street, Barangay
Lapu-Lapu, Catarman,
Northern Samar 6400
Fax No. (055) 251-8615
Direct Line (055) 500-9065
(055) 251-8615
Email: catarman@dbp.ph

DBP Catbalogan

Ground Floor, Tia Anita's
Commercial, Mabini Street,
Catbalogan City, Samar 6700
Fax No. (055) 251-2687
Direct Line (055) 251-2046
(055) 543-9069
Email: catbalogan@dbp.ph

DBP Maasin

RK Kangleon Street,
Tunga-Tunga, Maasin City,
Southern Leyte 6600
Fax No. (053) 570-9954
Direct Line (053) 381-2084
(053) 570-9954
Email: maasin@dbp.ph

DBP Ormoc

Ground Floor, WLC Building,
Lopez Jaena Street,
Ormoc City, Leyte 6541
Fax No. (053) 561-6017
Direct Line (053) 561-6017
(053) 561-4434
(053) 255-4371
Email: ormoc@dbp.ph

DBP Tacloban

Corner Zamora and
Paterno Streets, Tacloban
City, Leyte 6500
Fax No. (053) 325-5996
Direct Line (053) 523-0094
(053) 321-2007
Email: tacloban@dbp.ph

**REGIONAL MARKETING
CENTER – CENTRAL VISAYAS**

Mezzanine, DBP Building,
Osmeña Boulevard,
Cebu City 6000
Fax No. (032) 255-6325
Direct Line (032) 4123505
(032) 412-3505
(032) 412-3588
Email: rmc-cv@dbp.ph

DBP Bogo

Martinez Building corner Sor
D. Rubio and San Vicente
Streets, Bogo City, Cebu 6010
Fax No. (032) 251-2241
Direct Line (032) 251-2241
(032) 434-8795
Email: bogo@dbp.ph

DBP Carcar

Awayan, Poblacion III,
Carcar City, Cebu
Fax No. (032) 487-7138
Direct Line (032) 487-7038
Email: carcar@dbp.ph

DBP Cebu

Osmeña Boulevard,
Cebu City 6000
Fax No. (032) 253-7988
Direct Line (032) 412-3423
(032) 412-3402
(032) 255-6310
Email: cebu@dbp.ph

DBP Mandaue

Bridges Town Square, Plaridel
Street, Barangay Alang-
Alang, Mandaue City 6014
Fax No. (032) 344-4993
Direct Line: (032) 344-4992
(032) 345-8623
(032) 345-8624
Email: mandaue@dbp.ph

DBP Tagbilaran

DBP Building, 0533 Carlos
P. Garcia Avenue, North
Tagbilaran City 6300
Fax No. (038) 412-4033
Direct Line (038) 412-3103
(038) 412-3122
(038) 412-3107
Email: tagbilaran@dbp.ph

DBP Toledo

Barcenas Building, Poloyapoy
Street, Toledo City 6038
Fax No. (032) 367-7314
Direct Line (032) 367-7313
(032) 367-7315
Email: toledo@dbp.ph

**REGIONAL MARKETING
CENTER – PANAY**

Mezzanine Floor, DBP
Building, I. Dela Rama
Street, Iloilo City 5000
Fax No. (033) 336-7567
Direct Line (033) 337-6432
(033) 337-6330
(033) 509-9505
Email: rmc-panay@dbp.ph

DBP Antique

AVP Building, T. A. Fornier
Street, San Jose, Antique 5700
Fax No. (036) 540-7848
Direct Line (036) 540-9993
Email: antique@dbp.ph

DBP Iloilo

I. de la Rama Street,
Iloilo City 5000
Fax No. (033) 337-2224
Direct Line (033) 336-2092
(033) 336-2091
(033) 509-9490
Email: iloilo@dbp.ph

DBP Jaro

E. Lopez Street, Iloilo City 5000
Fax No. (033) 329-5233
Direct Line (033) 508-8900
(033) 329-2422
(033) 329-5230
Email: jaro@dbp.ph

DBP Kalibo

DBP Building, Capitol Site,
Kalibo, Aklan 5600
Fax No. (036) 268-5792
Direct Line (036) 268-5126
(036) 500-8891
Email: kalibo@dbp.ph

DBP Roxas

Ground Floor, Capiz
Government Business Center,
Provincial Park, Roxas City 5800
Fax No. (036) 621-2438
Direct Line (036) 621-5096
(036) 621-4002
(036) 522-1380
Email: roxas@dbp.ph

**REGIONAL MARKETING
CENTER – NEGROS**

Mezzanine Floor, DBP
Building, Corner South
Capitol Road and Lacson
Streets, Bacolod City 6100
Fax No. (034) 709-6094
Direct Line (034) 433-4284
(034) 709-6094
Email: rmc-negros@dbp.ph

DBP Bacolod

Corner South Capitol
Road and Lacson Streets,
Bacolod City 6100
Fax No. (034) 433-2303
Direct Line (034) 433-4283
(034) 433-3574
(034) 433-3573
Email: bacolod@dbp.ph

DBP Dumaguete

Rizal Boulevard,
Dumaguete City 6200
Fax No. (035) 225-5919
Direct Line (035) 225-4723
(035) 225-4338
(035) 422-9057
Email: dumaguete@dbp.ph

DBP Kabankalan

Corner Lirazan and Bonifacio
Streets, Kabankalan City 6111
Fax No. (034) 471-2402
Direct Line (034) 471-3170
(034) 471-2285
Email: kabankalan@dbp.ph

DBP San Carlos

F. C. Ledesma Avenue,
San Carlos City, Negros
Occidental 6127
Fax No. (034) 312-5158
Direct Line (034) 312-5591
(034) 312-5592
(034) 729-3351
Email: sancarlos@dbp.ph

**REGIONAL MARKETING
CENTER – NORTHERN
MINDANAO**

Second Floor, DBP Building,
Corrales Avenue corner
Tirso Neri Street, Cagayan
de Oro City 9000
Fax No. (088) 857-3412
Direct Line (08822) 722-646
(08822) 722-647
(088) 856-4551
Email: rmc-nm@dbp.ph

DBP Cagayan de Oro

DBP Building, Corrales Avenue
corner Tirso Neri Street,
Cagayan de Oro City 9000
Fax No. (088) 856-4517
Direct Line (088) 857-2148
(088) 857-2087
Email: cagayandeoro@dbp.ph

DBP Capistrano - CDO

Capistrano corner J. R.
Borja Streets, Cagayan
de Oro City 9000
Fax No. (088) 856-7776
Direct Line (088) 856-6154
(088) 722-819
Email: capistrano-cdo@dbp.ph

DBP Iligan

Picardal Road, Mahayahay,
Iligan City 9200
Fax No. (063) 221-3124
Direct Line (063) 221-2858
(063) 221-8208
(063) 223-3332
Email: iligan@dbp.ph

DBP Malaybalay

Bonifacio Drive, Caul,
Malaybalay City 8700
Fax No. (088) 813-3682
Direct Line (088) 813-3831
(088) 221-2134
Email: malaybalay@dbp.ph

DBP Ozamiz

Burgos corner Zamora
Streets, Ozamiz City 7200
Fax No. (088) 521-0032
Direct Line (088) 521-0027
(088) 521-0028
Email: ozamis@dbp.ph

DBP Valencia

Tamay Lang Park Lane, G.
Laviña Avenue, Poblacion
Valencia City, Bukidnon
Fax No. (088) 828-3316
Direct Line (088) 828-3190
(088) 828-3086
Email: valencia@dbp.ph

DBP Villanueva

National Highway
Brgy. Katipunan
Villanueva, Misamis Oriental
Direct Line (088) 8904761
Email: villanueva@dbp.ph

**REGIONAL MARKETING
CENTER – NORTHEASTERN
MINDANAO**

J. C. Aquino Avenue
corner J. Rosales Avenue,
Butuan City 8600
Fax No. (085) 815-1627
Direct Line (085) 815-6036
(085) 341-5136
(085) 815-2196
Email: rmc-nem@dbp.ph

DBP Butuan

J. C. Aquino Avenue
corner J. Rosales Avenue,
Butuan City 8600
Fax No. (085) 815-3826
Direct Line (085) 815-3827
(085) 815-2209
(085) 342-6358
Email: butuan@dbp.ph

DBP Mangagoy

Saren Building, Espiritu Street,
Mangagoy, Bislig City 8311
Fax No. (086) 853-2245
Direct Line (086) 853-5044
Email: mangagoy@dbp.ph

DBP San Francisco

Orange Street corner Rotunda,
San Francisco, Agusan
del Sur 8501
Fax No. (085) 839-0439
Direct Line (085) 839-0436
(085) 343-8274
Email: sanfrancisco@dbp.ph

DBP Surigao

Narciso Street, Surigao City 8400
Fax No. (086) 826-1118
Direct Line (086) 826-0289
(086) 231-7351
(086) 826-1309
Email: surigao@dbp.ph

DBP Tandag

Purok Napo, Barangay
Bagong Lungsod, Tandag
City, Surigao Del Sur
Fax No. (086) 211-5803
Direct Line (086) 211-5801
(086) 211-5802
(086) 211-5804
Email: tandag@dbp.ph

**REGIONAL MARKETING
CENTER – SOUTHERN
MINDANAO**

Roxas Avenue, General
Santos City 9500
Fax No. (083) 552-1488
Direct Line (083) 552-2328
(083) 301-6110
Email: rmc-sm@dbp.ph

DBP Cotabato

Don Rufino Alonzo Street,
Cotabato City 9600
Fax No. (064) 421-8216
Direct Line (064) 421-2367
(064) 421-2368
(064) 421-2365
Email: cotabato@dbp.ph

DBP General Santos

Roxas Avenue, General
Santos City 9500
Fax No. (083) 552-4514
Direct Line (083) 554-7821
(083) 552-2953
(083) 552-2961
Email: gensan@dbp.ph

DBP Marbel

Alunan Avenue,
Koronadal City 9506
Fax No. (083) 228-3667
Direct Line (083) 228-2429
(083) 228-3118
Email: marbel@dbp.ph

DBP Tacurong

National Highway
corner Del Corro Streets,
Tacurong City 9800
Fax No. (064) 200-3060
Direct Line (064) 200-3485
Email: tacurong@dbp.ph

**REGIONAL MARKETING
CENTER – SOUTHEASTERN
MINDANAO**

2nd Floor, DBP Building, C. M.
Recto Avenue, Davao City 8000
Fax No. (082) 227-2891
Direct Line (082) 221-2117
(082) 222-3477
(082) 222-3478
Email: rmc-sem@dbp.ph

DBP Davao

DBP Building, C. M. Recto
Avenue, Davao City 8000
Fax No. (082) 221-2572
Direct Line (082) 221-1037
(082) 222-8326
(082) 227-9681
Email: davao@dbp.ph

DBP Digos

DBP Building, Quezon
Avenue, Digos City 8002
Fax No. (082) 553-3943
Direct Line (082) 553-2933
Email: digos@dbp.ph

DBP Kidapawan

DBP Building, Quezon
Boulevard corner J.P. Laurel
Street, Kidapawan City 9400
Fax No. (064) 577-1581
Direct Line (064) 577-1450
(064) 577-1372
Email: kidapawan@dbp.ph

DBP Mati

DBP Building, Limatoc
Street, Mati City 8200
Fax No. (087) 388-3911
Direct Line (087) 388-3489
(087) 388-3642
(087) 811-0413
Email: mati@dbp.ph

DBP Tagum

DBP Building, Apokon Road,
Tagum City 8100
Fax No. (084) 655-9287
Direct Line (084) 216-7097
(084) 216-7096
Email: tagum@dbp.ph

**REGIONAL MARKETING
CENTER – WESTERN
MINDANAO**

Don P. Lorenzo Street (Port
Area), Zamboanga City 7000
Direct Line (062) 992-7365
(062) 991-1316
(062) 992-5819
Email: rmc-wm@dbp.ph

DBP Basilan

N. Valderrosa Street, Isabela
City, Basilan 7300
Fax No. (062) 200-3585
Direct Line (062) 200-3584
Email: basilan@dbp.ph

DBP Dipolog

National Highway, Turno,
Dipolog City 7100
Fax No. (065) 212-4290
Direct Line (065) 212-3404
(065) 212-3414
(065) 908-0207
Email: dipolog@dbp.ph

DBP Ipil

Corner Succang Avenue
and Gethsemane Street, Ipil,
Zamboanga Sibugay 7001
Fax No. (062) 333-2279
Direct Line (062) 333-2279
(062) 333-2420
Email: ipil@dbp.ph

DBP Jolo

Gen. Arrola Street corner
Buyon Street, Jolo, Sulu 7400
Fax No. 818-9511 Local
1982
Direct Line (085) 341-8911
Email: jolo@dbp.ph

DBP Pagadian

Rizal Avenue, Balangasan
District, Pagadian City 7016
Fax No. (062) 214-1450
Direct Line: (062) 214 2169
(062) 214-1448
(062) 214-4638
Email: pagadian@dbp.ph

DBP Zamboanga

DBP Building, Don Pablo
Lorenzo Street (Port Area),
Zamboanga City 7000
Fax No. (062) 991-2617
Direct Line (062) 992-7366
(062) 991-1331
Email: zamboanga@dbp.ph



ANNUAL REPORT COMMITTEE

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Member, Operations Sector

SM Carmina P. Nave
Member, Strategic Planning Group

MGR. Criselda V. Codera
Member, Office of the Chief Marketing
Officer

MGR. Therese Grace S. Sudaria
Member, Strategic Planning Group



Head Office:

Sen. Gil Puyat Avenue corner Makati Avenue
Makati City, Philippines

Mailing Address:

P.O. Box 1996, Makati Central Post Office 1200

Trunkline: (632) 818-9511 to 20, 818-9611 to 20

Fax: (632) 893-4311 **Email:** info@dbp.ph

Website: www.devbnkphl.com



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2015 ANNUAL REPORT

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

The Development Bank of the Philippines (DBP or the "Parent Bank"), created under Republic Act No. 85, as amended by Executive Order No. 81 dated December 3, 1986, primarily provides banking services principally to cater to the medium and long-term financing needs of agricultural and industrial enterprises particularly in the countryside with emphasis on small and medium-scale industries. The Parent Bank also provides financial assistance to participating financial institutions for on-lending to investment enterprises and direct to borrowers as may be required by its catalytic role in the economy. It is likewise involved in other activities including investments in government and private financial instruments.

The Bangko Sentral ng Pilipinas (BSP), in its letter dated December 20, 1995, granted the Parent Bank the permit to operate as an expanded commercial bank (EKB). The Parent Bank commenced operation as an EKB on February 7, 1996.

The Parent Bank and its subsidiaries referred to as the Group are engaged in development banking, financing, management services, computer services, leasing, and remittance services.

Its principal place of business is at Sen. Gil J. Puyat Avenue Corner Makati Avenue, Makati City.

As of December 31, 2015, the Group had 2,649 employees (2014 – 2,495) and operated a total of 110 branches nationwide.

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on June 29, 2016 under Board Resolution No. 0234.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Preparation

The consolidated financial statements comprise the consolidated Statement of Financial Position, the Statement of Profit or Loss and Other Comprehensive Income, presented as two statements, the Statement of Changes in Capital Funds, the Statement of Cash Flows and the Notes.

These financial statements have been prepared on a historical cost basis, modified by the fair value measurement of financial assets on trading and available for sale securities, derivative financial instruments, and real and other properties owned.

The accompanying financial statements of the Parent Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The preparation of financial statements in conformity with Philippine Financial Reporting Standards (PFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Statement of Compliance

The Group's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the PFRS except for the following:

- a. In 2015, the financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks, specifically on transactions discussed in Note 12. In July 2011 and September 2015, the Parent Bank participated in bond exchanges covering its eligible government bonds. The SEC granted an exemptive relief from the existing tainting rule on Held-To-Maturity (HTM) investment under PAS 39, Financial Instruments: Recognition and Measurement while the BSP also provided the same exemption for prudential reporting to participants. Following this exemption, the basis for preparation of the financial statements of the availing entities shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS.

As of December 31, 2015, had the Parent Bank accounted for the transaction under PFRS, the unamortized balance of the deferred gain on exchange of P81.91 million, part of which was the P 46.18 million pertaining to the September 2015 bond swap, would have been credited to the Parent Bank's 2015 net income and the entire HTM investment portfolio with amortized cost of P 60.745 billion would have been reclassified to AFS investments and carried at fair value with net unrealized gain of P 2.05 billion (under capital funds and Statement of Profit or Loss and Other Comprehensive Income of the Parent Bank).

Changes in accounting policy and disclosures

a. New and amended standards adopted by the Group

The following standards have been adopted by the Group effective January 1, 2015:

1. Amendment to PAS 16, Property, Plant, and Equipment and PAS 38, Intangible Assets

The amendments clarify that when an item of property, plant, and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset. The amendments did not have a significant effect on the Group's financial statements.

2. Amendment to PAS 24, Related Party Disclosures on key management personnel

This amendment clarifies that where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors. The amendment did not have a significant effect on the Group's financial statements.

3. Amendment to PFRS 13, Fair Value Measurement

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

Other standards, amendments, and interpretations which are effective for the financial year beginning on January 1, 2015 are considered not relevant to the Group.

b. New standards, amendments and interpretations not yet adopted

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

1. Amendment to PAS 1, Presentation of Financial Statements – Disclosure Initiative (effective from January 1, 2016)

The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

2. Amendment to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (effective from January 1, 2016)

The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

3. Amendment to PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (effective from January 1, 2016)

This amendment introduces 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. As of the end of the reporting period, the Group has no plan to change the accounting policy for its investments in subsidiaries and associates.

4. PFRS 9 (2014), Financial Instruments (effective from January 1, 2018)

This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures

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

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

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related and, in most arrangements, does not require separation from the host contract. For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

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

The Group will assess impact of these amendments on its financial position or performance when they become effective.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Bank and its subsidiaries which are prepared for the same reporting period as the Parent Bank using consistent accounting policies. The percentage of effective ownership of the Parent Bank in operating subsidiaries at December 31, 2015 is as follows:

	Percentage of ownership
DBP Data Center, Incorporated	- 100 % owned
DBP Management Corporation	- 100 % owned
DBP Leasing Corporation	- 100 % owned
Al-Amanah Islamic Investment Bank of the Philippines	- 99.88 % owned

The Parent Bank's management decided to discontinue and close the operations of the DBP Remittance Center Hong Kong Limited (DBP RCHL) to give way to a shift in strategy and business model for DBP's OFW remittance business in Hong Kong. Closure of the subsidiary was effected in the books of DBP MC on December 29, 2015 accounted for as follows: (In thousand pesos)

Amount of investment	12,900
Amount remitted by DBP RCHL	748
Loss on investment	12,152

Under PAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, the financial statements of the investee company are required to be consolidated with the financial statements of the investor even if the shareholding of the enterprise is below 50 percent but the investor has evidence of control.

All significant inter-company balances and transactions are eliminated in full on consolidation. The consolidated financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Investments in subsidiaries

Subsidiaries are entities over which the Parent has the power to control its financial and operating policies. The Parent Bank obtains and exercises control through voting rights.

Subsidiaries' financial statements are consolidated with the Parent when the Parent has control over it and cease to be consolidated on the date the Parent loses its control.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Parent Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Investments in associates and joint ventures

Associates and joint ventures are entities over which the Parent Bank has significant influence but not control, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights. Investments in associates and joint venture in the consolidated financial statements are accounted for under the equity method of accounting. Under the equity method, the carrying amount is increased or decreased to recognize the investor's share of profit or loss of the investee after the date of acquisition.

Investments in subsidiaries, associates and joint ventures

Equity investments reflected in the Parent Bank's separate financial statements which represent investments in subsidiaries, associates and joint ventures are accounted for at cost method in accordance with PAS 27. Under the cost method, income from investment is recognized in the statements of profit or loss only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of investment.

The Parent Bank recognizes a dividend from a subsidiary or associate or joint venture in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indication that the investment in the subsidiary or associate or joint venture is impaired. If this is the case, the Parent Bank calculates the amount of impairment or the difference between the recoverable amount and the carrying value and the difference is recognized in profit or loss.

Investment in subsidiaries or associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates and joint ventures at which time the cost and the related accumulated impairment loss are removed in the Statement of Condition. Any gain or loss on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the parent's investee company are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the parent's functional and presentation currency.

Transactions and balances

Foreign currency monetary items are accounted for in accordance with the provisions of PAS 21: "Effects of Changes in Foreign Exchange Rates" and are revalued monthly using the Philippine Dealing System (PDS) Peso/US dollar closing rate and the New York US dollar/third currencies closing rates as prescribed under BSP Circular 494 dated September 20, 2005. Actual foreign currency transactions are booked based on prevailing PDS as of transaction date. Foreign exchange differences arising from the above are charged to operations.

Past due loans are now being revalued using the above rates and the foreign exchange difference booked under profit or loss.

Foreign subsidiaries

DBP Remittance Center Hong Kong Limited, which discontinued and closed its operations in 2015, is a foreign subsidiary of the DBP Management Corporation. The following are its operating results and financial position, measured using Hong Kong dollars, its functional currency, and translated to Philippine pesos, the Group's functional currency:

- i. assets and liabilities are translated at the closing rate, on the date of the Statement of Financial Position
- ii. income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- iii. all resulting exchange differences are recognized as a separate component of the Statement of Profit or Loss and Other Comprehensive Income. When a foreign operation is sold, such exchange differences are recognized in the statement of profit or loss as part of the gain or loss on sale

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items on hand, bank deposits and interbank loans receivable, and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition.

Due from other banks

Due from other banks includes balances of funds on deposit with other foreign and local banks to meet not only reserve requirements but also to cover operational requirements especially in areas not covered by BSP clearing offices. This includes requirements for encashment of checks issued by the Department of Education (DepEd) against their DBP accounts for the payroll of its public school teachers and other disbursements of the Department of Budget and Management (DBM) under the Modified Disbursement Scheme (MDS) of the Bureau of Treasury.

Financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale securities, held-to-maturity securities and loans and receivables. Management determines the classification of its investments at initial recognition.

Financial assets at Fair Value Through Profit or Loss (FVTPL)

A financial asset is classified under this category if acquired principally for the purpose of selling in the near term or generating a profit from short-term fluctuations in price or dealer's margin. In other words, these are trading debt and equity securities that are purchased with the intent of selling them in the near term. These are normally classified as current assets. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets Available-For-Sale (AFS)

Available for sale investments are those purchased and held indefinitely, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. These securities may be classified as current or non-current depending on whether they are intended to be held within one year or for more than one year.

Financial assets Held-To-Maturity (HTM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. As provided under PAS 39, if the Group decides to sell or reclass more than an insignificant amount of held-to-maturity assets before maturity or causes other than as a consequence of non-recurring isolated event beyond its control that could not be reasonably anticipated, the entire category would be tainted and reclassified as available-for-sale for the current and the next two financial reporting years. Securities falling under this category are normally classified as non-current investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

1. those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading (HFT), and those that the entity upon initial recognition designates as at fair value through profit or loss;
2. those that the entity upon initial recognition designates as available for sale; or
3. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as AFS.

This account also includes Unquoted Debt Securities Classified as Loans (UDSCL), which has fixed or determinable payments and fixed maturity.

Recognition and measurement

Initial recognition and measurement

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date – the date that an asset is delivered to or by the Group. For settlement date accounting, financial assets are recognized on the day it is delivered subject to the provisions of PAS 39. The corresponding gain or loss on disposal is recognized at the time of derecognition.

Consistent with PAS 39, Financial instruments – recognition and measurement, the Group's financial assets or financial liabilities are recognized initially at fair value.

Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into.

Unquoted debt securities classified as loans shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of these securities.

Subsequent measurement

FVTPL are carried at fair or market value. Gains or losses arising from change in fair value or market revaluation are credited or charged to operations.

AFS are carried at fair or market value. Unrealized gains or losses on market valuation or change in fair value are reported as separate components in the Statement of Profit or Loss and Other Comprehensive Income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as "Profits from investments and trading securities – net" in the statement of profit or loss. Interest earned on holding AFS investments are reported as interest income.

HTM are subsequently measured at amortized cost using the effective interest rate method. Gains or losses on amortization or on sales are credited or charged to operations.

Financial assets are measured at fair value except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest method. The effective interest rate shall refer to the rate that exactly discounts estimated future cash receipts through the expected life of the security or when appropriate, a shorter period to the net carrying amount of the security. However, interest calculated using the effective interest method is recognized in the statement of profit or loss when the entity's right to receive payment is established. Financial liabilities are measured at cost or amortized cost, except for derivatives.

This standard also covers the accounting for derivative instruments, definition of which has been expanded to include derivatives (derivative-like-provisions) embedded in non-derivative contracts. Derivatives are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models. Every derivative instrument is recorded in the statement of financial position either as an asset when fair value is positive or liability when fair value is negative.

Derivatives are adjusted to fair value through income. The embedded derivative is not separated from the host contract and now booked as Unquoted Debt Securities Classified as Loans (UDSCL) following BSP Circular Nos. 626 and 628 series of 2008.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency futures are contractual obligation to receive or pay a net amount based on changes in currency rates to buy or sell foreign currency on a future date at a specified price, established in an organized financial market. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved and therefore, do not indicate the Parent Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuation in market rates of foreign exchange rates relative to their terms. The aggregate contractual or matured amount of derivative financial instruments on hand is aggregate contractual or notional amount of derivative financial instruments.

Loans and receivables are carried in the books at amortized cost or at the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. UDSCL are measured at their amortized cost using the effective interest method.

In determining the effective interest rate, the estimated future cash flows consider all contractual terms of the financial instrument but do not consider future credit losses. The Group collects front-end fees and other charges (i.e. commitment fees and service charges) that are not considered transaction costs in calculating the effective rate. These fees and other charges are recognized immediately as income of the Group upon collection.

Past due accounts are automatically carried on non-accrual basis. Interest income on such accounts is recognized only upon collection.

Financial asset reclassification

Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date.

Impairment of assets

Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses (the amounts by which the carrying amounts of loan, i.e., Outstanding Principal Balance (OPB) less Allowance for Impairment Losses exceed their recoverable values) 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 and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured/estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value. Recoverable amount is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss.

When a loan is uncollectible, it is written off against the related provision for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to miscellaneous income in the statement of profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account, however, the carrying amount after the reversal of the impairment loss should not exceed the carrying amount of the loan account had there been no impairment loss recognized. The amount reversed is recognized in the statement of profit or loss.

Assets classified as available-for-sale

A significant or prolonged decline in the fair value of available-for-sale securities below cost is considered in determining whether the securities are impaired. The cumulative loss (difference between the acquisition cost and the current fair value) is removed from capital funds and recognized in the statement of profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increase and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to capital funds.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Non-financial assets

In the case of real and other properties acquired (ROPA), bank premises, furniture, fixtures and equipment, and other assets, impairment loss is the difference between the carrying amount and the fair value less costs to sell in case carrying amount is higher. The loss is recognized in the statement of profit or loss and an allowance account is set up to reduce the carrying amount of the asset.

Bank premises, furniture, fixtures, and equipment

Bank premises, furniture, fixtures and equipment (including leasehold improvements) are stated at cost, less accumulated depreciation and amortization, and any impairment in value. When the assets are disposed/sold, the cost and accumulated depreciation and amortization shall be derecognized or taken out from the books and any gain or loss resulting from disposal is included in profit or loss from derecognition.

The initial cost of property comprises its purchase price (less any discounts), plus any and all taxes (on a net basis) and any costs directly attributable to bringing the asset to its working condition and location for its intended use. Extraordinary repairs which benefits future accounting periods through greater productivity and/or longer useful life and which increase the net book value of the asset or cost of repair exceeding 50 percent of the original acquisition cost are capitalized to the cost of the property.

The computation of the depreciation expense starts on the following month after the purchase/completion of the bank premises, furniture, fixtures, and equipment, irrespective of the date within the month. Depreciation is computed based on a straight-line method net of residual value equivalent to 10 percent of the acquisition cost/appraised value over the estimated useful lives of the related assets as follows:

Building	20 – 50 years
Transportation Equipment	7 – 10 years
Furniture and Equipment	3 – 10 years

Impairment is recognized when there is a substantial evidence of decline in the value of the bank premises, furniture, fixtures, and equipment and recoverable amount falls below its carrying amount.

The cost of leasehold improvements shall be depreciated over the term of a lease or life of the improvements whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and betterments that will extend the life of the asset are capitalized.

Properties that are no longer used in the Bank’s operation for various reasons are classified at the remaining book value of the asset as Miscellaneous Assets – Others Unserviceable Properties. All non-serviceable properties or those no longer economical to maintain shall be disposed in accordance with COA rules and regulation particularly on publication and public bidding. Property Disposal Committees were created for this purpose. The cost and the related accumulated depreciation and amortization of the disposed asset are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

In December 2008, the Parent Bank’s Norham property in Baguio was stated at appraised value as determined by the Parent Bank’s appraiser. Hence, the carrying amount was revised and shall be depreciated over its remaining useful life.

Non-current assets held for sale (NCAHFS)

NCAHFS consist of real and other properties acquired (ROPA) through foreclosure of mortgaged properties, dacion-en-pago arrangements, or Sales Contract Receivables (SCR) rescissions, where foremost objective is immediate disposal generally under cash or term sale transactions.

Initial carrying amount is computed as the outstanding balance of the loan less allowance for impairment plus transaction costs, where allowance for impairment is set up if the carrying amount exceeds the fair value of the ROPA.

Investment property

Investment property includes land and buildings acquired upon foreclosure which are not immediately available for sale in the next 12 months. This is stated at cost less accumulated depreciation. It is also subject to regular impairment tests. An impairment loss is recognized for the amount by which the property’s carrying amount exceeds its recoverable amount, which is the property’s fair value less costs to sell and value in use.

Leases

a) As Lessee

Operating lease – leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating payments are recognized as expense in the statement of profit or loss on a straight-line basis over the period of the lease. When the operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

b) As Lessor

Finance lease – when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income under finance lease is recognized over the term of the lease using the net investment method before tax.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share in the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other Assets.

Computer Software

Computer software (included under Other Assets) represent cost of software licenses, application system software and development fees. The amortization expense commences on the following month upon 100 percent completion/delivery of the software/project. Computer software are measured at cost and amortized based on a straight line method with an expected useful life as follows:

Computer Software Licenses	3 years
Application System Software	5 years
Development Fees	3 years

Costs associated with developing or maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Parent Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Employee benefits

Retirement benefits of the Parent Bank’s staff are covered by laws applicable to all government employees. Gratuities are paid by the Parent Bank for staff employed prior to June 1, 1977. The Parent Bank pays through a funded non-contributory gratuity plan consisting of actuarially determined normal annual service costs plus amortization of past service liability over a ten-year period which are charged to operations. Those employed after June 1, 1977 shall be paid directly by the Government Service Insurance System. However, in view of the Early Retirement Incentive Program (ERIP) IV, which is geared at ensuring the vitality of the Parent Bank for the next ten years through infusion of new blood, cost savings in its personnel budget and creation of new opportunities for career advancement in the Parent Bank, retirement incentive is paid to avalees and invitees upon effectivity of their separation from the Parent Bank.

In compliance with applicable laws, the Parent Bank established a Provident Fund for the benefit of its employees. Contributions made to the fund based on a predetermined rate are charged to operations.

The present value of incentives accruing to officers and employees who responded to the Parent Bank's offer for early retirement as of end of year 2015 amounted to P691 million. PAS 19 provides that benefits which fall due for more than twelve months after the reporting date shall be rediscounted using average market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of financial position dates.

Accrued retirement incentives of the Parent Bank were nil for 2014 and 2015.

Deferred Income Tax

Deferred income tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, including asset revaluations. Deferred income tax assets are the amounts of income taxes recoverable in future periods which are recognized for all deductible temporary differences, the carry forward of unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of and unused NOLCO, and unused tax credits can be utilized.

Taxable temporary differences are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset is recovered or liability is settled.

The carrying amount of deferred income tax asset is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such reduction should be subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

Borrowing costs

Borrowing costs represent interests and other pertinent financial charges and costs incurred in connection with the availments of domestic and foreign borrowings. In compliance with PAS 23 that prescribes the accounting treatment for borrowing costs, such costs are generally recognized and accrued as an expense in the period in which they are incurred.

Government grants (WB-RPP Grant)

The grant account was cancelled and declared closed per World Bank (WB) letter dated September 5, 2012. Out of the US\$ 0.62 million availed from the grant proceeds, US\$ 0.17 million or equivalent to P7.6 million was established for the Project Preparation Fund (PPF). PPF was approved by WB as one of the components of the grant intended to assist financing project preparation activities for renewable energy (RE) technologies.

In compliance with PAS 20, Accounting for Government Grants and Disclosure of Government Assistance, the P7.6 million PPF sub-grant was recorded as miscellaneous asset.

Interest and other income and expense

Interest and other income and expenses are recognized on accrual basis, except for those loan accounts which are adversely classified consistent with the guidelines of the Bangko Sentral ng Pilipinas (BSP).

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment losses of loans and receivables (Note 18)

The Group reviews its loan portfolios and receivables to assess impairment at least annually or as the need arises. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Fair value of derivatives (Note 10)

The fair values of financial instruments that are not quoted in active markets are determined by using valuation methods. Where valuation methods are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, valuation methods use only observable data. Changes in assumptions about these factors could affect reported fair values of financial instruments.

Impairment of AFS investments (Note 18)

The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

HTM Investments (Note 12)

The Group follows the guidelines of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling of more than an insignificant amount close to maturity – it will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not at amortized cost.

Financial assets not quoted in an active market

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

Classification of non-current assets held for sale (NCAHFS) (Note 18)

Management follows the principles in PFRS 5 in classifying foreclosed assets as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value. Subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in the statement of profit or loss.

Realization of deferred income tax assets (Note 20)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

NOTE 4 – FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of financial position at fair value at December 31, 2015:

	Carrying Amount		Fair Value	
	Group	Parent	Group	Parent
Financial assets:				
Cash and other cash items	3,043,421	3,029,525	3,043,421	3,029,525
Due from BSP	90,504,709	89,998,279	90,504,709	89,998,279
Due from other banks	11,357,633	11,330,907	11,357,633	11,330,907
Interbank loan receivables	4,073,414	4,073,414	4,073,414	4,073,414
Securities under agreement to resell	32,434,752	32,434,752	32,434,752	32,434,752
Fair value through profit or loss	334,244	334,244	334,244	334,244
Available-for-sale, net	83,790,512	83,789,271	83,790,512	83,789,271
Held-to-maturities, net	72,391,953	72,374,882	74,633,874	74,616,803
Loans and advances, net	198,985,266	197,453,977	198,998,267	197,466,979
Other resources – net	(3,233,598)	(3,277,602)	(3,233,598)	(3,277,602)
Total	493,682,306	491,541,649	495,937,228	493,796,572
Financial liabilities:				
Deposit liabilities	324,294,172	324,007,472	324,294,172	324,007,472
Bills payable	101,596,107	100,732,538	101,596,107	100,732,538
Bonds payable	14,073,406	14,073,406	14,073,406	14,073,406
Due to BSP/other banks	277	277	277	277
Manager’s checks and demand drafts outstanding	137,393	136,717	137,393	136,717
Accrued taxes, interests and expenses	3,731,348	3,668,543	3,731,348	3,668,543
Unsecured subordinated debt	15,633,646	15,633,646	11,229,679	11,229,679
Total	459,466,349	458,252,599	455,062,382	453,848,632

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Financial assets

Debt securities – Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities – Fair values are based on quoted prices published in markets.

Loans – Fair values are estimated using the discounted cash flow methodology, using the Group’s current incremental lending rates for similar types of loans. Loans and advances are net of provisions for impairment.

Short-term investments – Carrying amounts approximate fair values.

Other – Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Group’s total portfolio of securities.

Cash and cash equivalents – Carrying amounts approximate fair values.

Derivative instruments – Fair values are estimated based on quoted market prices provided by independent parties or accepted valuation models.

Fair value measurement

Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset’s current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example: Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (“OTC”) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible. The Group has no assets or liabilities classified under Level 3 as of December 31, 2015.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

Fair value hierarchy

The following table presents the fair value hierarchy of the Group's assets and liabilities at December 31, 2015:

	Group		Parent	
	Level 1	Level 2	Level 1	Level 2
Financial assets:				
Financial assets at fair value through profit or loss				
Trading securities				
Debt	330,746	0	330,746	0
Equity	44	0	44	0
Derivative with positive fair value	26	0	26	0
Total	330,816	0	330,816	0
Available-for-sale financial assets				
Debt	76,193,102	0	76,193,102	0
Equity	0	1,241	0	0
Investment in non - marketable securities	0	7,138,625	0	7,138,625
Total	76,193,102	7,139,866	76,193,102	7,138,625
Total	76,523,918	7,139,866	76,523,918	7,138,625
Financial liabilities:				
Derivative with negative fair value	157,869	0	157,869	0

NOTE 5 - MANAGEMENT OF RISKS

The responsibility of risk management resides in all levels of the organization with the Board of Directors (BOD) being ultimately responsible for the overall risk of the Parent Bank. The risk management processes of the subsidiaries, on the other hand, are the separate responsibilities of their respective BOD.

The Parent Bank has established an enterprise risk management framework that meets basic best-practice and Basel requirements relative to its size, scope and limited complexity. It is continually enhanced to address current challenges including meeting Basel III requirements, striking a balance between risks and returns, and achieving a risk profile suitable to the Parent Bank's business plans. Risk and capital management is performed at all levels of the organization, instituting a culture of risk awareness and a risk based approach to decision-making.

The BOD sets the tone and risk tolerance, draws up the risk strategy for the Parent Bank and takes the lead in promoting a culture of risk-awareness throughout the institution. Strategic decisions in relation to risk management are made by the Risk Oversight Committee (ROC).

The Enterprise Risk Management Sector (ERMS) serves as the operating unit of the ROC and is responsible for the development and implementation of a comprehensive risk management policy framework. The management and mitigation of risks, specifically in the core areas of risks under Credit, Market, and Operations are carried out through policies approved by the BOD as endorsed by the ROC, Executive Credit Committee (CreCom), Asset and Liability Committee (ALCO), and/or the Management Committee (MANCOM). The Parent Bank continues to take various initiatives in response to the changing risk environment to further reinforce its risk management capabilities. This puts the Parent Bank in a stronger position to manage both its current activities and support further growth and expansion.

The BOD-level Audit and Compliance Committee (ACC), assisted by the Internal Audit Group (IAG), is responsible for monitoring compliance with the Parent Bank's risk management policies and procedures. The Parent Bank's risk management practices, systems and processes, including methods, risk metrics, and performance measures developed internally, are independently reviewed by the IAG.

The Parent Bank's subsidiaries manage their respective risks separately, each having their own risk management processes. These, however, have a similar structure to that of the Parent Bank. Further, policies and procedures adopted by the subsidiaries and affiliates are aligned with the Parent Bank's policies and procedures.

Credit Risk

Credit risk is the risk of potential financial losses arising from failure of a borrower or counterparty to discharge its contractual payment obligations. Credit exposures arise from loans and advances to borrowers, commitments to counterparties, guarantees issued on clients' paying performance, investments in debt instruments of issuers, market-traded or over-the-counter derivatives and off-balance sheet financial arrangements. Credit risk comprises the biggest risk exposure of the Parent Bank as it is naturally exposed to credit risk in line with its core lending and money market activities with financial institutions, corporations, local government units, electric cooperatives, water districts and small and medium enterprises.

The ERMS works with the ROC in formulating framework to manage credit exposures, developing appropriate risk management infrastructure and systems, and implementing policies and procedures. Reports are regularly provided to the BOD, thus making relevant information available to them in their oversight of the Parent Bank's risk-taking activities. Abrupt changes in the country's macroeconomic condition or a shift in the business climate of a particular industry segment for which the Parent Bank's portfolio may be concentrated could alter the risk profile of its exposures. Management, therefore, takes into account the change in economic environment as it affects a particular credit or group of borrowers.

The main objective of the Credit Risk Management Group (CRMG) is to maintain the Parent Bank's credit risk exposure within acceptable levels while pursuing its developmental mandate through its regular reviews of business units, products, credit policies and processes. Although each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, CRMG's independent oversight ensures that credit risks arising from all business activities are adequately mitigated. The CRMG is composed of Credit Risk Management Department (CRMD), Credit Policy Supervision (CPS) and Remedial Management Department (RMD).

CRMD monitors risk exposures on a portfolio level, ensures all utilizations are within approved limits and performs a one-time comprehensive pre-approval credit risk review. CPS handles the review on a borrower level and takes responsibility in the formulation of the Parent Bank's credit policies. Both perform post-release credit review on newly-approved and implemented loans, the result of which is reported to Management and/or the concerned Lending Unit. RMD is an independent unit closely monitoring watchlisted and classified loan accounts to ensure early detection, resolution and optimum recovery strategies for problem loan accounts. It is under the oversight of the Sub-Committee of ExCreCom on Remedial Management. Lending units, however, have the primary responsibility for detecting, preventing and initiating early actions on potential account deterioration.

Credit Approval Process

A primary element of the Parent Bank’s credit approval process is a detailed risk assessment of the credit exposure associated with a borrower or counterparty. The Parent Bank’s risk assessment procedures entail an evaluation of the counterparty’s creditworthiness and the risks associated with the specific credit accommodation/credit facility that will be granted. Borrowers are required to meet pre-defined risk acceptance criteria. An Internal Credit Risk Rating System (ICRRS) associated with specific borrower types is used in the evaluation of the credit strength, capturing the risks inherent to each type of business. These rating systems are used for making credit decisions, assessing credit risk of existing and potential borrowers, and for pricing purposes.

All credit facilities are deliberated at different levels of credit committees (unit/ branch, regional/department, sector and executive) depending on the originating lending unit and amount of exposure. The Group implements a system of checks and balances such that no person can singly approve a credit facility. Furthermore, independent review of the credit risk and compliance with policies, rules and regulations are conducted by the CRMG and IAG.

The Parent Bank has consistently maintained past due and non-performing loans at manageable single-digit levels. This reflects the Parent Bank’s ability to develop and implement credit policies and procedures that are aligned with industry best practices and are responsive to the existing economic conditions.



Credit Portfolio Management

Movements in the Parent Bank’s credit portfolio are closely monitored. Analysis is regularly performed to assess the Parent Bank’s vulnerability to deteriorating credit environment and portfolio quality.

Loans and advances

In determining credit risk of loans and advances at a counterparty level, taking into account both quantitative and qualitative measures, the Parent Bank endeavors to consider the following components, among others: (a) the probability of default by the client or counterparty on its contractual obligations; (b) current exposures to the counterparty and its likely future development; (c) the strength of financial capacity; (d) the likely recovery ratio in case of default; (d) equity contribution and (e) quality and enforceability of collateral.

The Parent Bank assesses the probability of default of individual borrowers/ counterparties using internal rating tools tailored to the various categories of counterparty. In the Parent Bank’s rating scale, exposures migrate between classes as the assessment of their probabilities of default changes. The rating tools are reviewed and upgraded as necessary.

The Parent Bank has in place an ICRRS to assist concerned bank units to identify, measure, monitor, and price credit risks. It is expected that with these risk-rating systems, weaknesses in account management and internal controls could be addressed before the Parent Bank’s portfolio deteriorates. The implementing guidelines of the Parent Bank’s ICRRS include the scoring models for the following types of borrowers:

- a. Large and Medium Enterprises, including State Universities and Colleges and Government-Owned and Controlled Corporations
- b. Micro and Small Enterprises
- c. Electric Cooperatives under supervision by the National Electrification Administration
- d. Water Districts under supervision by the Local Water Utilities Administration
- e. Local Government Units
- f. Financial Institutions

Using the different rating models, the Marketing Units will be able to calculate the Borrower Risk Rating (BRR), which shall be the basis for the approval of any new or additional loan accommodation, whether for a prospective or an existing borrower. Consistent with the risk-based lending practiced in the Parent Bank, the BRR shall be the basis for the credit spread on loans. The ICRRS is also tied up with existing policies on account classification and loan loss provisioning. The Parent Bank conducts quarterly review of the adequacy of the specific loan loss reserves based on the account’s BRR and account classification.

Definition of each rating/tier is described as follows:

BRR	Qualitative Rating	Definition
1	Extremely Strong	ROP Guarantee, full Cash Collateral, extremely strong capacity to meet financial commitments, highly liquid, stable profitability, and undisputed industry leader.
2	Very Strong +	Very strong capacity and capability to meet financial commitments, access to capital markets, high level of liquidity, sustained strong profitability and operational indicators, top tiers ranking in the industry, and capable of withstanding extreme level of external stress.

3	Very Strong -	Very strong capacity to meet financial commitments, access to capital markets, high level of liquidity, increasing strong profitability and operational indicators, major industry player, and capable of withstanding severe level of external stress.
4	Strong +	Strong capacity and capability to meet financial commitments, strong liquidity, sustained profitability, strong industry player, and capable of withstanding substantial external stress.
5	Strong -	Strong capacity to meet financial commitments, strong liquidity, strong profitability, strong industry player, and capable of weathering industry disruptions.
6	Adequate +	Proven debt payment capacity within normal operations, adequate liquidity, increasing trend in profitability/sustained strong profitable operations for the last 5 years, sunrise industry; regional player, and capable of withstanding moderate level of external stress
7	Adequate -	Adequate capacity to meet financial commitments; debt-service cover above 1.0, adequate liquidity, stable profitability/sustained profitable operations for the last 4 years, minor player; operations limited to locality, and capable of withstanding modest level of external stress.
8	Acceptable +	Sustained high or increasing leverage; unsupported increase in borrowings, Funding mismatch, Sustained profitable operations for the last 3 years, Minor player; operations limited to locality, and Capable of withstanding mild level of external stress
9	Acceptable -	Debt service cover below 1.0, Marginal liquidity; late payments to suppliers, Declining trend in profitability, Minor player; operations limited to locality; sunset industry, Susceptible to adverse economic conditions and changes in circumstances
10	Watchlisted +	Cash generation insufficient for debt repayment, Declining trend in liquidity, Consistently declining trend in profitability, Weakened position in the industry, and Weakened response to industry disruptions
11	Watchlisted -	Impaired debt repayment capability; negative net operating cash generation, Current ratio below acceptable levels, Net loss for 2 quarters; deficit retained earnings, Loss of major customer; sustained industry disruptions, and May be unable to weather adverse economic conditions
12	Especially Mentioned	With court case that has impact on operations and capacity to pay, Tight liquidity, Net loss for one year, Weak industry conditions, and Impaired ability to weather adverse economic conditions
13	Substandard	Deficit capital, Liquidity problems, Sustained losses, Adverse industry conditions, and Unable to weather adverse economic conditions
14	Doubtful	Past due per I.B.3., Appendix 18 of the MORB, Non-operating or unable to operate, Adverse industry conditions, and Unable to weather adverse economic conditions
15	Loss	Past due and other characteristics per I.B.4, Appendix 18 of the MORB, Non-operating, Adverse industry conditions and Unable to weather adverse economic conditions.

Recognizing that the ICRRS is a primary tool for monitoring the risk profile of individual credits and the quality of the credit portfolio, the Parent Bank now subjects its entire loan portfolio to risk rating under the enhanced 15-tier ICRRS. An independent Model Validation of the Bank's ICRRS was conducted by Sycip Gorres and Velayo and Company (SGV & Co.) which was completed on October 23, 2015.

Clients of the Group are segmented into the following standard BSP classifications:

- **Unclassified** – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
- **Loans especially mentioned** – these are loans that have potential weaknesses that deserve Management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Group.
- **Substandard** – these are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans that possibility of future loss to the institution unless given closer supervision. These loans must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.
- **Doubtful** – these are loans or portions thereof which have the weaknesses inherent in those classified as "Substandard" with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- **Loss** – these are loans or portions thereof which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

Debt securities

For debt securities, external ratings given by International Rating Agencies such as Standard & Poor's, Moody's and Fitch or their equivalent are used by the Parent Bank to assess credit risk exposures. Investments in these securities allow the Parent Bank to further diversify its credit portfolio while maintaining considerable liquid assets.

Creditworthiness of a counterparty-issuer is determined by employing a combination of quantitative and qualitative assessments alongside more active Senior Management and Board-level deliberations. Limits, exit mechanisms, and implications on credit concentration and liquidity are some of the major areas being addressed before investments on debt instruments are approved.

Risk limit control and mitigation policies

The Parent Bank manages limits and controls concentrations of credit risk wherever they are identified. The levels of credit risk are structured by placing limits on the amount of risk accepted in relation to one borrower, a group of borrowers, or an industry segment. The same is true for treasury-related activities. Such risks are monitored on a regular basis and subject to an annual or more frequent review when considered necessary. Macroeconomic indicators, industry analyses and individual borrower risk assessments are taken into consideration to determine adjustments in existing lending limits.

Limits on large exposures and credit concentration are approved by the Board of Directors. These credit limits set the maximum credit exposures the Parent Bank is willing to assume over specified periods. The Parent Bank's credit policies also establish procedures for exceptional cases when it may assume exposures beyond established limits. Actual exposures against established limits are monitored regularly to ensure that business units operate within the Parent Bank's defined risk tolerance. Industry concentration is quantified and regularly monitored against a Standard Concentration Index.

The Parent Bank employs a range of policies and practices to mitigate losses in case of default by a borrower. Some of these specific control and mitigation measures are outlined below:

a) Collateral

One of the most traditional and common practice in credit default loss mitigation is requiring security for loans and advances. The Parent Bank implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels
- Hold-out on financial instruments such as debt securities, deposits, and equities
- Assignment of Portion of Internal Revenue Allotments for Debt Servicing (for LGU loans)

In order to minimize credit loss, the Parent Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

b) Credit – related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans albeit on contingent basis. Documentary and commercial letters of credit are written undertakings by the Parent Bank on behalf of a customer authorizing a third party to draw drafts on the Parent Bank up to a stipulated amount under specific terms and conditions. These are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the Parent Bank manages its potential exposure to loss in an amount equal to the total unused commitments by a combination of effective fund management and imposition of commitment fees. Moreover, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Parent Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

As described above, the Parent Bank’s credit quality mapping on loans and advances is based on the standard BSP loan classification and the ICRRS adopted by the Parent Bank and as approved by the Board. In addition, allowance for probable losses as well as impairment provisions are recognized based on BSP classification for the former and on objective evidence of impairment for the latter.

The table below shows the percentage of the loans and receivables and the related allowance for impairment. (In thousand pesos)

	Group			
	2015		2014	
	Loans and receivables (%)	Allowance for impairment (%)	Loans and receivables (%)	Allowance for impairment (%)
Unclassified	94.60	0.35	92.94	0.70
Loans especially mentioned	1.55	5.01	3.28	5.42
Substandard	1.16	16.75	1.41	20.78
Doubtful	0.77	82.15	0.94	82.52
Loss	1.92	100.06	1.43	100.02
	<u>100.00</u>		<u>100.00</u>	

	Parent			
	2015		2014	
	Loans and receivables (%)	Allowance for impairment (%)	Loans and receivables (%)	Allowance for impairment (%)
Unclassified	94.56	0.34	92.92	0.70
Loans especially mentioned	1.56	5.01	3.30	5.42
Substandard	1.17	16.76	1.41	20.78
Doubtful	0.78	50.20	0.95	53.75
Loss	1.93	100.06	1.42	100.02
	<u>100.00</u>		<u>100.00</u>	

Maximum exposure to credit risk before collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk at December 31, 2015, without taking into account any collateral held or other credit enhancements is shown below based on net carrying amounts as presented in the statement of condition. (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Due from BSP	90,504,709	104,327,504	89,998,279	103,898,378
Due from other banks	11,357,633	17,009,729	11,330,907	16,782,163
Interbank loans receivable	4,073,414	12,132,497	4,073,414	12,132,497
Securities purchased under agreements to resell	32,434,752	6,742,696	32,434,752	6,742,696
FVTPL	334,244	3,625,801	334,244	3,625,801
AFS, net	83,790,512	65,885,167	83,789,271	65,833,517
HTM	72,391,953	69,136,836	72,374,882	69,128,158
Loans and receivables, net	198,985,266	181,259,269	197,453,977	180,844,995
Other assets, net 1/	(3,233,598)	(5,891,109)	(3,277,602)	(5,937,514)
	<u>490,638,885</u>	<u>454,228,390</u>	<u>488,512,124</u>	<u>453,050,691</u>

1/ The negative balance was mainly due to the Accounts Receivable – National Government (NG)/Foreign Exchange (FX) Differential resulting from the FX gains on ODA borrowing with FX Cover in compliance with BSP Monetary Board Resolution No. 393 dated March 6, 2014.

Credit risk exposures relating to off-balance sheet items are as follows:

	Group		Parent	
	2015	2014	2015	2014
Undrawn loan commitments	13,421,757	8,171,197	13,421,757	8,171,197
Others	3,337,798	3,835,436	3,337,798	3,835,436
	16,759,555	12,006,633	16,759,555	12,006,633

Credit quality

The following table shows the credit quality of financial assets (In thousand pesos):

	Group 2015				
	Loans and receivables	Loans and advances to banks *	Investment securities **	Others***	Total
Neither past due nor impaired	194,108,211	138,370,508	156,500,132	(3,036,582)	485,942,269
Past due but not impaired	286,316				286,316
Impaired	11,085,130		290,819		11,375,949
	205,479,657	138,370,508	156,790,951	(3,036,582)	497,604,534
Allowance for impairment and credit losses	(6,494,391)		(274,242)	(197,016)	(6,965,649)
	198,985,266	138,370,508	156,516,709	(3,233,598)	490,638,885

	Group 2014 As restated				
	Loans and receivables	Loans and advances to banks *	Investment securities **	Others***	Total
Neither past due nor impaired	173,856,722	140,212,426	138,631,167	(5,687,700)	447,012,615
Past due but not impaired	407,362				407,362
Impaired	13,233,158		290,879	1,046	13,525,083
	187,497,242	140,212,426	138,922,046	(5,686,654)	460,945,060
Allowance for impairment and credit losses	(6,237,973)		(274,242)	(204,455)	(6,716,670)
	181,259,269	140,212,426	138,647,804	(5,891,109)	454,228,390

	Parent 2015				
	Loans and receivables	Loans and advances to banks *	Investment securities **	Others***	Total
Neither past due nor impaired	192,053,399	137,837,352	156,481,848	(3,093,994)	483,278,605
Past due but not impaired	282,541				282,541
Impaired	11,064,555		290,791		11,355,346
	203,400,495	137,837,352	156,772,639	(3,093,994)	494,916,492
Allowance for impairment and credit losses	(5,946,518)		(274,242)	(183,608)	(6,404,368)
	197,453,977	137,837,352	156,498,397	(3,277,602)	488,512,124

	Parent 2014				
	Loans and receivables	Loans and advances to banks *	Investment securities **	Others***	Total
Neither past due nor impaired	172,927,566	139,555,734	138,570,927	(5,743,855)	445,310,372
Past due but not impaired	404,595				404,595
Impaired	13,213,361		290,791		13,504,152
	186,545,522	139,555,734	138,861,718	(5,743,855)	459,219,119
Allowance for impairment and credit losses	(5,700,527)		(274,242)	(193,659)	(6,168,428)
	180,844,995	139,555,734	138,587,476	(5,937,514)	453,050,691

* Comprised of Due from BSP, Due from other banks, Interbank loans receivable and Securities purchased under agreements to resell
 ** Comprised of FVTPL, AFS and HTM
 *** Comprised of Accounts receivable, Other receivables and other assets

The table below presents the aging analysis of gross amount of loans and receivables that were past due but not impaired. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than carrying amount of the loans. (In thousand pesos).

	Group		Parent	
	2015	2014	2015	2014
Past due less than 31 days	47,610	129,834	47,610	129,708
Past due 31 – 60 days	12,057	54,388	12,057	54,388
Past due 61 – 90 days	9,918	48,378	9,918	48,378
Over 90 days	216,731	174,762	212,956	172,121
	286,316	407,362	282,541	404,595
Fair value of collateral	1,643,890	1,745,331	1,643,890	1,745,331

Credit quality of foreign currency-denominated investments are classified according to the following credit grades which are based on the below-enumerated range of Standard and Poor's (S&P) equivalent long-term issue ratings:

Credit Grades	S & P credit equivalent ratings	
	From	To
High Grade	AAA	BBB-
Standard Grade	BB+	B
Substandard	B-	C
Default	D	

Credit ratings used for exposures to Philippine government and its instrumentalities are the S&P sovereign long-term rating of the Philippines for its foreign currency and local denominated debt which are both at BBB- (investment grade).

The table below shows the credit quality of financial instruments that are neither past due nor impaired based on the Bank's rating system. (In thousand pesos).

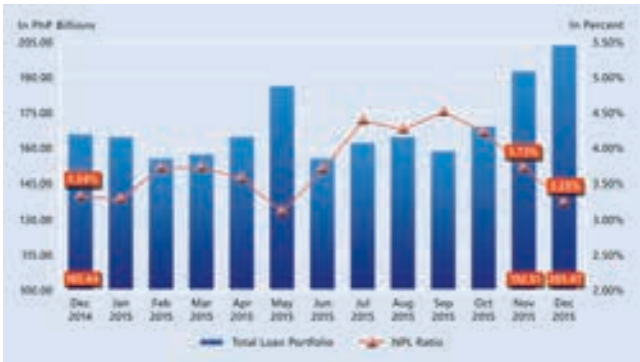
Group 2015					
	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	0	334,200	44	0	334,244
AFS	0	83,549,869	224,066	290,819	84,064,754
HTM	10,922,410	61,469,543	0	0	72,391,953
	10,922,410	145,353,612	224,110	290,819	156,790,951
Allowance for impairment and credit losses					(274,242)
					156,516,709

Group 2014 As restated					
	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	0	3,625,749	52	0	3,625,801
AFS	3,135,989	62,508,475	224,066	290,879	66,159,409
HTM	5,699,121	63,437,715	0	0	69,136,836
	8,835,110	129,571,939	224,118	290,879	138,922,046
Allowance for impairment and credit losses					(274,242)
					138,647,804

Parent 2015					
	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	0	334,200	44	0	334,244
AFS	0	83,548,656	224,066	290,791	84,063,513
HTM	10,905,339	61,469,543	0	0	72,374,882
	10,905,339	145,352,399	224,110	290,791	156,772,639
Allowance for impairment and credit losses					(274,242)
					156,498,397

Parent 2014					
	Neither past due nor Impaired			Past due or Impaired	Total
	High Grade	Standard	Substandard		
FVTPL	0	3,625,749	52	0	3,625,801
AFS	3,085,578	62,507,324	224,066	290,791	66,107,759
HTM	5,690,442	63,437,716	0	0	69,128,158
	8,776,020	129,570,789	224,118	290,791	138,861,718
Allowance for impairment and credit losses					(274,242)
					138,587,476

The Parent Bank has maintained single digit levels of non-performing loans (NPL) throughout the year. The graph below shows the NPL ratio against the Bank's total loan portfolio and the movement in NPL ratio from December 2014 to December 2015. The Bank was able to maintain its NPL ratio below 5% from December 2014 to December 2015, with an average ratio of 3.76%.



Collateral held as security and other credit enhancements

The Parent Bank holds collateral against loans and receivables from customers in the form of real estate and chattel mortgage, hold-out on deposits, debt and equity securities, assignment of applicable portion of Internal Revenue Allotment (IRA) for debt servicing of LGUs, and guarantees issued by the ROP and other acceptable institutions. Estimates of fair value are based on the latest appraisal value of collaterals, which is done every year for real estate with improvements, every two years for lots only and every six months for chattels. Generally, no collaterals are held on due from other banks, interbank loans, investments under FVTPL, AFS and HTM except securities held under reverse repurchase agreements.

A summary of the appraised/fair value of collaterals held against loans and receivables is as follows: (In thousand pesos)

	2015	2014
A. Against neither past due nor impaired		
Real estate mortgage	63,768,402	35,090,067
Chattel mortgage	11,839,064	10,323,084
Deposits on hold	856,544	534,466
IRA/Others	49,031,885	80,119,952
	<u>125,495,895</u>	<u>126,067,569</u>
B. Against past due but not impaired		
Real estate mortgage	1,577,987	1,678,544
Chattel mortgage	59,002	39,957
Deposits on hold	439	31
IRA/Others	5,000	22,815
	<u>1,642,428</u>	<u>1,741,347</u>
C. Against impaired loans		
Real estate mortgage	17,600,456	25,221,496
Chattel mortgage	4,431,186	4,315,053
Deposits on hold	7,920	21,536
IRA/Others	2,274,584	2,247,369
	<u>24,314,146</u>	<u>31,805,454</u>
	<u>151,452,469</u>	<u>159,614,370</u>

Credit Concentration

The Parent Bank seeks to spread its risk exposure and prevent excessive exposures to individual counterparties, groups of related counterparties, and groups of counterparties with similar characteristics. Prudent limits have been placed on exposures to single customer / customer groups.

An analysis of concentrations of credit risk based on the carrying amount is shown below: (In thousands)

	Group 2015				
	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial and insurance activities	20,508,276	138,370,508	128,414,810		287,293,594
Electricity, gas and water	47,968,293		11,279,605		59,247,898
Manufacturing	14,322,798		90		14,322,888
Real estate, renting and business administration	18,238,018		4,555,390		22,793,408
Wholesale and retail trade	39,719,758		0		39,719,758
Transportation and storage	25,624,219		10,879,964		36,504,183
Information and communication	222,202		1,660,092		1,882,294
Public administration	17,232,484		1,000		17,233,484
Education	1,932,816		0		1,932,816
Human health and social work	5,906,786		0		5,906,786
Activities of household	4,914,793		0		4,914,793
Construction	4,393,024		0		4,393,024
Agriculture, forestry and fishing	2,659,612		0		2,659,612
Other Service Activities	7,000		0		7,000
Others	1,829,578		0	(3,036,582)	(1,207,004)
	<u>205,479,657</u>	<u>138,370,508</u>	<u>156,790,951</u>	<u>(3,036,582)</u>	<u>497,604,534</u>
Allowance for impairment	(6,494,391)		(274,242)	(197,016)	(6,965,649)
	<u>198,985,266</u>	<u>138,370,508</u>	<u>156,516,709</u>	<u>(3,233,598)</u>	<u>490,638,885</u>

	Group 2014 As restated				
	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial and insurance activities	23,046,038	140,212,426	114,560,698		277,819,162
Electricity, gas and water	39,021,496		11,417,222		50,438,718
Manufacturing	16,756,319		1,030,910		17,787,229
Real estate, renting and business administration	19,237,176		8,640		19,245,816
Wholesale and retail trade	31,835,537		0		31,835,537
Transportation and storage	24,467,266		10,243,519		34,710,785
Information and communication	2,070,228		1,660,057		3,730,285
Public administration	14,633,721		1,000		14,634,721
Education	2,992,400		0		2,992,400
Human health and social work	3,714,926		0		3,714,926
Activities of household	3,877,047		0		3,877,047
Construction	1,540,733		0		1,540,733
Agriculture, forestry and fishing	3,205,459		0		3,205,459
Others	1,098,896		0	(5,686,653)	(4,587,757)
	187,497,242	140,212,426	138,922,046	(5,686,653)	460,945,061
Allowance for impairment	(6,237,973)		(274,242)	(204,456)	(6,716,671)
	181,259,269	140,212,426	138,647,804	(5,891,109)	454,228,390

	Parent 2015				
	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial and insurance activities	20,508,275	137,837,352	128,396,589		286,742,216
Electricity, gas and water	47,882,132		11,279,605		59,161,737
Manufacturing	14,115,179		0		14,115,179
Real estate, renting and business administration	18,229,835		4,555,390		22,785,225
Wholesale and retail trade	39,695,517		0		39,695,517
Transportation and storage	24,863,871		10,879,963		35,743,834
Information and communication	222,202		1,660,092		1,882,294
Public administration	16,694,568		1,000		16,695,568
Education	1,890,214		0		1,890,214
Human health and social work	5,902,353		0		5,902,353
Activities of household	4,914,785		0		4,914,785
Construction	4,039,771		0		4,039,771
Agriculture, forestry and fishing	2,649,427		0		2,649,427
Others	1,792,366		0	(3,093,994)	(1,301,628)
	203,400,495	137,837,352	156,772,639	(3,093,994)	494,916,492
Allowance for impairment	(5,946,518)		(274,242)	(183,608)	(6,404,368)
	197,453,977	137,837,352	156,498,397	(3,277,602)	488,512,124

	Parent 2014				
	Loans and receivables	Loans and advances to banks	Investment securities	Others	Total
Financial and insurance activities	23,046,037	139,555,734	114,500,457		277,102,228
Electricity, gas and water	38,932,760		11,417,223		50,349,983
Manufacturing	16,740,424		1,030,822		17,771,246
Real estate, renting and business administration	19,234,124		8,640		19,242,764
Wholesale and retail trade	31,781,568		0		31,781,568
Transportation and storage	23,889,598		10,243,519		34,133,117
Information and communication	2,070,228		1,660,057		3,730,285
Public administration	14,453,499		1,000		14,454,499
Education	2,992,400		0		2,992,400
Human health and social work	3,709,802		0		3,709,802
Activities of household	3,877,039		0		3,877,039
Construction	1,516,162		0		1,516,162
Agriculture, forestry and fishing	3,204,845		0		3,204,845
Others	1,097,036		0	(5,743,854)	(4,646,818)
	186,545,522	139,555,734	138,861,718	(5,743,854)	459,219,120
Allowance for impairment	(5,700,527)		(274,242)	(193,660)	(6,168,429)
	180,844,995	139,555,734	138,587,476	(5,937,514)	453,050,691

The Group's largest industry concentration is to the financial and insurance activities sector given the Bank's treasury investing operations, deposits with BSP and securities purchased under agreement to resell.

This includes the Parent Bank's investments in Metro Rail Transit Corporation (MRTC) pursuant to DBP Board Resolution No. 371 dated 24 September 2008, No. 26 dated 11 February 2009, No. 48 dated 4 March 2009, No. 53 dated 11 March 2009, No.82 dated 15 April 2009, and No. 86 dated 22 April 2009. An approval from the Department of Finance to buy MRTC holdings using the Consensual Unwind Formula was also secured by both DBP and LBP. The purchase by DBP and LBP of MRTC investments gave the Government control in the MRTC Board to resolve outstanding issues between DOTC and MRTC. The GFIs' entry also came at an opportune time because the sellers were willing to sell their MRTC holdings at a price based on the consensual unwind formula given the effect of the 2008 financial crisis.

The entry of DBP and LBP paved the way for the dropping of the Washington Arbitration Case, while the Singapore Case was kept outstanding based on mutual consent from both parties.

DBP's equity investment in MRTC is below the maximum ceiling set by BSP for single entities of 25 per cent of the net worth of DBP. Likewise, it is also below the maximum ceiling set for aggregate investment for allied/ non-allied equity investments of 50 per cent of the net worth of DBP. BSP approval was sought in compliance to BSP Regulations on investments on non-allied equity investments at Sec. X381.1 and X383.a and as required under RA 8791 dated May 23, 2000.

Outstanding investments in MRTC bonds has a face value of US\$ 632.858 million booked as UDSCl under Note 13, while investment in preference shares are shown in Note 11 under private equity securities and in Note 25 under deferred credits and other liabilities.

The MRT Interagency Technical Working Group ("MRT-IATWG") composed of representatives from DOTC, DBP, LBP, DOF, NEDA, DBM and OSG are working on the possibility of the buyout.

The BSP under MB Resolution No. 267 dated 18 February 2015 allowed DBP and LBP to hold MRTC Equity investments as non-allied undertakings pursuant to Section 1381 of the Manual for Regulations for Banks (MORB), subject to the 35% ceiling.

Credit Information Systems

The Parent Bank currently maintains various systems that are used to measure credit risk exposures both on and off balance sheet. Different units, including marketing officers, back-office personnel and middle managers make use of these systems for monitoring, analysis and reporting of exposures particularly limits and concentration. Access to this information is limited to authorized users only.

a) Customer Information System (CIS)

CIS is an integrated customer management system that provides users in the Parent Bank with better client service tools. It captures a broad set of customer and financial information that helps the Parent Bank analyze client profiles.

b) Central Liability System (CLS)

CLS houses the database, which includes information of specific borrowers as well as other data pertaining to client account/s. It provides greater visibility into customers' data and consolidated financial reporting that will enhance operations and increase productivity through easy access to information. It enables monitoring of loan exposures to specific groups, geographical or industry sectors.

c) Credit Information Builder (CrIB)

CrIB was developed to capture all information related to individual and corporate borrowers and corresponding credit facilities extended by the Parent Bank. The system was designed to serve as the loan origination system where data stored will be used for the Parent Bank's Central Liability System and Management Information System.

d) Kondor Global Risk

In monitoring the different credit-related exposures in the Treasury Department, the Parent Bank uses Kondor Global Risk (KGR) to consolidate financial institutions' credit limits information and enables the management of the DBP's Treasury portfolio real time. It provides credit managers with real-time control and monitoring of credit exposures, enabling efficient limit utilization across the enterprise with sophisticated credit mitigation techniques. Traders can make limit inquiries and receive limit updates in real time.

Market Risk

Market risk arises from movements in interest rates and foreign exchange rates, as well as their corresponding correlations and implied volatilities. Market Risk Management Department – Market and Liquidity Risk Unit (MRMD-MLRU) handles risk management for market risk exposures. The ultimate objective of MRMD-MLRU is to measure and control the Group's risk-taking activities in the financial markets and ensure limits are established based on the level of risk tolerance defined by the BOD and ability of the Parent Bank to absorb market shocks. The department is also responsible for monitoring the liquidity and interest rate risk profile of the Parent Bank.

The operations of MRMD-MLRU are governed by the market risk policies which include the approval process and specific authorities on exposure limits. A system of market risk limits is strictly implemented which are set based on industry-accepted methodologies. Market risks are primarily controlled by restricting trading operations to a list of permissible instruments within authorized limits set by the BOD. Risk limits are monitored on a regular basis, the monitoring by which is dependent on existing system infrastructure. The unit's risk monitoring process is supported by middle office functionalities available in the Group's financial market trading platform. Among others, the system provides straight-thru processing, fully automated limits control, and real-time risk monitoring capabilities.

The Group's foreign exchange activities are mostly related to hedging currency mismatches on its balance sheet and servicing client requirements. The Group's foreign exchange exposure is managed conservatively within the Net Open Position limits allowed by the Bangko Sentral ng Pilipinas (BSP). The Group's foreign exchange exposures arising from its ODA funding are mostly covered by the National Government.

The Value-at-Risk

The Value-at-Risk ("VaR") methodology is the primary market risk measure for the Parent Bank's trading activities. The Group estimates VaR using the parametric approach at 99% confidence interval. To complement the VaR calculation, stress testing and scenario analysis are performed on both individual portfolios and on the consolidated positions to examine the Parent Bank's vulnerability to plausible extreme losses due to market shocks. Daily VaR is calculated mainly for risk measurement and not yet used in determining market risk capital requirement as the Parent Bank currently adopts the Standardized Approach under the Basel II framework.

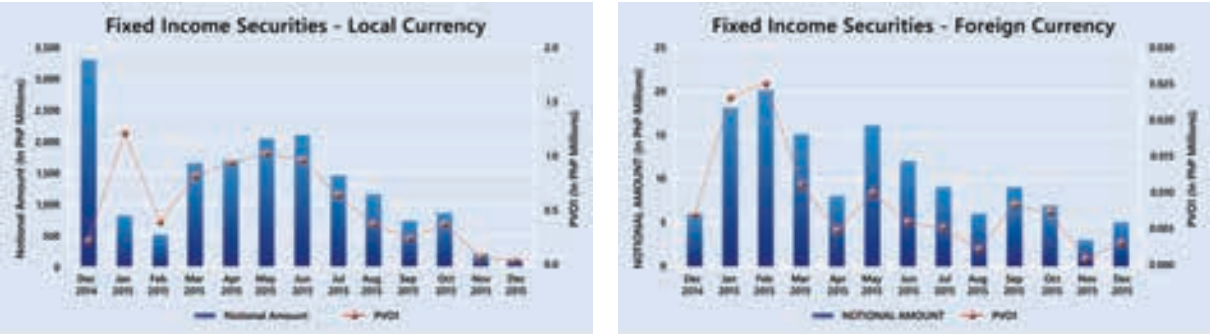
The table below provides a summary of the Parent Bank's VaR profile, by risk class for 2014:

	2015 Year end	December 2014 - December 2015			2014 Year end
		Average	Min	Max	
In PhP Millions					
Fixed Income Trading	31.31	73.01	9.78	202.61	50.58
Foreign Exchange Trading	1.50	17.29	0.38	63.42	3.80

The Parent Bank's VaR for Fixed Income Trading by year-end of 2015 is lower by 38.11% than the previous year-end due to the decrease in proprietary trading of debt instruments, mainly comprised of bonds issued by the National Government, towards the end of the year. On the other hand, a decrease in Foreign Exchange activities as the year-end approached resulted to a VaR lower by 60.63% in 2015 as compared with the previous year.

Sensitivity Analysis

Interest rate sensitive positions in the trading book are measured using a single rate-duration based calculation of interest rate risk. The graph below shows the movement in Present Value (PV01) terms of the Parent Bank's debt securities portfolio from December 2014 to December 2015.



Liquidity Risk

The Parent Bank, as a special purpose domestic bank focused on development lending, remains to have a relatively liquid profile. In its development lending, the Parent Bank sources funding largely from foreign governments and supranational development banks and agencies in the form of Overseas Development Assistance facilities, which it on-lends to domestic development projects in the countryside. To manage liquidity risk, MRMD-MLRU implements liquidity risk management tools such as liquidity ratios monitoring and contingency funding plan.

Liquidity Profile

	DBP Ratios	Industry Ratio 1/
Stable Funding vs. Non-Liquid Assets	39%	11%
Liquid Assets vs. Volatile Funding	59%	37%
Liquid & Less Liquid Assets vs. Volatile Funding	65%	39%
Key Liquidity Provider Sourced Funding vs. Total Liabilities	18%	3%
Liquid Assets Ratio	40%	31%
1/ Top 10 universal banks in terms of assets excluding DBP as of December 31, 2015		

The Parent Bank's better-than-industry liquidity ratios resulted from its ability to secure and preserve long-term funding and conservative approach in maintaining a high level of liquid assets. The Parent Bank has also continued to strengthen its ties with government agencies and corporations to generate deposits, making it less dependent on inter-bank borrowings. In most cases, the Parent Bank has been a net lender to the inter-bank market.

Contingency Funding

The Parent Bank has in place Board-approved policies capturing the key areas of liquidity risk management and structural interest rate risk management. The policies provide a clear governance structure in the Parent Bank comprised of the BOD and Senior Management committees. Responsibilities are clearly delineated in the areas of monitoring, controlling and reporting risk. As such, the Parent Bank's Contingency Funding Plan (CFP) contains a well-constructed senior level action plan with clear delegation of actions and responsibilities. The CFP mainly highlights the resources or facilities that can be considered by the Parent Bank and decision points necessary to guide management systematically address a liquidity crisis event.

Foreign Currency Risk

The Group maintains its foreign currency exposure by implementing internal limits and strict adherence to existing regulations. Proprietary trading is fairly moderate with exposures restricted to major currencies and limits are set based on historical performance and risk tolerance defined by the BOD. Management of foreign currency risk is also part of market risk management handled by MRMD-MLRU.

BSP caps the Group's allowable open FX position (either overbought or oversold) to 20% of the unimpaired capital or US\$ 50 million, whichever is lower. Also, the Group is required to fully cover foreign currency liabilities with foreign currency assets held in the FCDU books.

The table summarizes the Parent Bank's exposure to foreign exchange risk as of December 31, 2015. Included in the table are the Parent Bank's assets and liabilities at carrying amounts, categorized by currency: (In thousand pesos)

	Foreign Currency Deposit Unit	Regular Foreign	Total
Resources			
Due from other banks	5,776,868	5,007,471	10,784,339
Interbank loans receivables	3,566,514	1,411,800	4,978,314
Financial assets at fair value through profit and loss	234,661	0	234,661
Financial assets available for sale	26,666,069	22,387,037	49,053,106
Financial assets held to maturity	24,106,087	5,402,451	29,508,538
Loans and receivables	165,379	121,361	286,740
Other resources	(509,254)	296,892	(212,362)
Total Resources	60,006,324	34,627,012	94,633,336

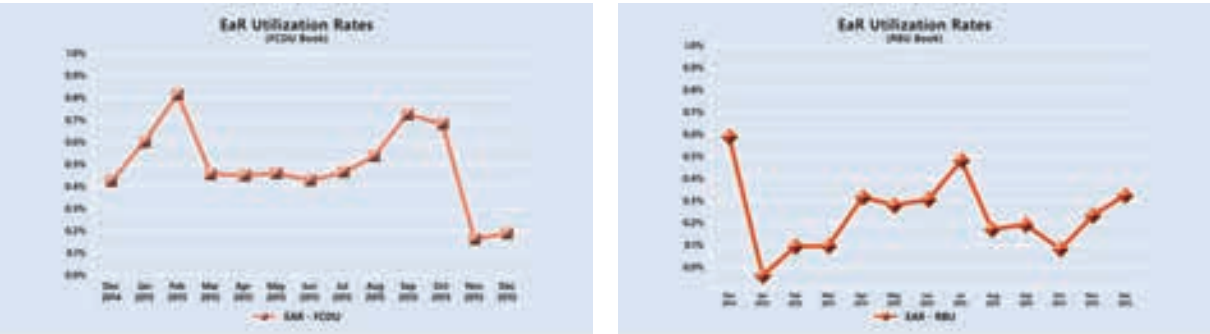
Liabilities			
Deposit liabilities	24,101,890	0	24,101,890
Bills payable	21,460,575	25,534,578	46,995,153
Bonds payable	14,118,000	0	14,118,000
Accrued taxes, interests and expenses	286,736	8,517	295,253
Deferred credits and other liabilities	(862,398)	54,129,784	53,267,386
Total liabilities	59,104,803	79,672,879	138,777,682
Net exposure			
	901,521	(45,045,867)	(44,144,346)
Total contingent accounts		(9,411,962)	(9,411,962)
Fx Position		211,249	211,249

The Parent Bank is required to fully cover foreign currency liabilities with foreign currency assets and of which, 30 per cent is liquid assets held in the FCDU books.

Interest Rate Risk

The Parent Bank currently adopts the Earnings-at-Risk (EaR) methodology in measuring interest rate risk exposure in the Banking Book. Extensive analysis, which includes scenario simulations on the Parent Bank’s Interest Rate Gap (IRG) and its corresponding effects to Net Interest Income (NII) and Net Interest Margin (NIM) are done on a regular basis. Depending on the Parent Bank’s forecast or view on short-term and long-term interest rate movements, both domestic and foreign, appropriate responses are made to lessen the vulnerability of the Parent Bank to adverse interest rate shifts and changes in the shape of the yield curve. These tools for interest rate risk management are implemented by MRMD MLRU.

The following graphs show the monthly movement of the Parent Bank’s EaR vis-à-vis limits in 2015 for both the RBU and FCDU books.



The following graphs show the monthly movement of the Parent Bank’s NII and NIM in 2015.



Operational Risk Management

The Parent Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Parent Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing additional procedures required to comply with regulatory requirements. All units are responsible for managing operational risk by implementing clear and defined processes, delineation of responsibilities, and business continuity plan, among others.

Operational Risk Management Department (ORMD) is primarily responsible for the establishment of a reliable and proactive operational risk management process, policies and procedures consistent with industry best-practices and globally accepted frameworks. Also, the department assists the Risk Oversight Committee in defining the Bank’s level of operational risk-tolerance and formulation of operational risk parameters with the objective of effectively managing operational risk and efficient utilization of capital.

ORMD is composed of Business Continuity Management Unit (BCMU), Operational Risk Monitoring Unit (ORMU) and Information Technology Risk Management Unit (ITRMU). BCMU improves and strengthens the Bank’s business continuity management system, ORMU improves and strengthens the Bank’s operational risk management system, while ITRMU improves and strengthens the Bank’s operational – IT related risk management system.

Operational Risk Assessment

The Parent Bank conducts regular Risk Assessment exercise, which serves to identify risk areas and vulnerabilities. Assessment of risks is conducted by the members of the Operational Risk Working Group, integrated in the annual ICAAP activities. This serves to identify risks relating to people, processes, systems and structures.

Business Continuity Management

Recognizing the Bank’s vulnerability to losses resulting from operational disruptions due to internal factors such as power outage, system downtime and external factors such as natural disasters, terrorist attacks and pandemic illness, among others, the Bank continually exerts efforts to improve its business continuity management including disaster preparedness.

The Bank regularly reviews and enhances its Business Continuity Manual to adopt industry best-practices and ensure that the Bank's core business operations continue to function in the event of business disruption or disaster. Regular testing is scheduled and performed to ensure the ability of all bank units to recover their business operations.

Complementing the detailed contingency measures, the Bank's recovery facilities are regularly assessed and maintained with a view towards the Bank's recovery requirements, including application systems, equipment and supplies.

Enhanced Operational Loss Monitoring Module (eOLMM) System

In preparation for the possible adoption of advanced risk measures for operational risk, the Bank has put in place an automated system to track internal losses. The DBP started the operational loss data collection with quarterly reports submitted by all Bank units to the then Risk Management Office in 2005 using an automated PC-based Operational Loss Monitoring Module (OLMM) system. The system was enhanced in 2007, with frequency of downloading/consolidation of reports from quarterly to monthly, improving the timeliness of reporting and identification of loss events patterns. The system was further improved and converted to a web-based system that can also capture potential losses which led to the enhanced OLMM (eOLMM) which is being used by the Bank since February 2014. Monthly operational loss report is submitted to the Risk Oversight Committee (ROC) for ongoing tracking and monitoring of operational risk losses to facilitate the effective management of operational risks.

Risk and Control Self-Assessment (RCSA)

The Bank adopts and implements the Risk and Control Self-Assessment (RCSA) which aims to identify, assess, control and mitigate operational risk and to champion effective reporting of operational risk and emerging issues. RCSA forms an integral element of the overall operational risk framework, as it provides an excellent opportunity for a firm to integrate and coordinate its risk identification and risk management efforts and generally to improve the understanding, control and oversight of its operational risks. RCSA provides a systematic means of identifying control gaps that threaten the achievement of defined business or process objectives and monitoring what management is actually doing to close these gaps. In addition, the RCSA activities promote risk awareness and ownership.

Operational Loss Incident Reporting

To augment the operational loss data collection and monitoring, the Bank implemented the policy on Operational Loss Incident Reporting that standardizes the process of documenting and reporting of incidents throughout the Bank. The policy helps the evaluation / assessment of incidents and instituting mitigating controls to preclude recurrence. It also establishes the proper responsibilities / accountabilities associated with the documentation. To ensure that all operational loss incidents are reported and captured accordingly, the policy includes sanctions / penalties for non-compliance.

Operational Risk Awareness

To promote and supplement the risk awareness and risk ownership, the Bank conducted series of Consolidated Training on Enterprise Governance, Risk Management, Compliance and Security for Head Office Units, Regional Marketing Center and Branches. For Risk Management training, the modules include the risk awareness and management tools of Operational Risk Management, Business Continuity Management and IT Risk Management.

IT Risk Register

One of the outputs expected from the conduct of Operational Risk Awareness is the accomplishment of the IT Risk Register (ITRR) by all Bank Units. Concepts regarding the significance of ITRR including how to accomplish the same are included as part of the training series of CoTrEGRCS. This is to ensure that all bank units will have a consistent understanding of the importance of the IT Risk Register as a tool in identifying, managing and monitoring IT risks of each bank unit.

IT Risk Management Framework

To establish the IT risk management process in the Bank in compliance with BSP Circular 808, the IT Risk Management Framework (ITRMF) was developed and subsequently approved by the IT Governance Committee and the Board of Directors in 2015. The ITRMF was created with the primary goal of strengthening the management of IT risks in DBP due to the evolving complexity of risks involved in using information technology in banking service delivery.

Operational Risk Coordinators

To ensure continuity in the implementation of the various regulatory requirements in incident reporting, operational loss monitoring, business continuity management, and operational and information technology risks, the Bank identified and designated an Operational Risk Coordinator from each business unit. The roles and responsibilities of the coordinator covers the Business Continuity Management, Operational Risk Monitoring and IT Risk Management. The Bank issued the Office Order no. 313 dated December 11, 2015 for immediate implementation of the said designation.

Operational risk issues are likewise identified in the course of audit engagements, business process reviews and analysis of operational loss reports and data. Identification of risks in new product lines and businesses are likewise performed with the review of product manuals and new product proposals.

Operational Risk and Capital Efficiency

The Parent Bank's operational risk capital charge is obtained by multiplying the computed average gross income by a specified factor determined using the Basic Indicator Approach (BIA). This is the basis of the Operational Risk Weighted Assets calculations.

Capital Management

Approach to Capital Management

Decisions and strategies undertaken by the Parent Bank are geared towards achieving capital adequacy and efficiency. Under the Internal Capital Adequacy Assessment Process (ICAAP), the Parent Bank has instituted an enterprise-wide process that will ensure that all inherent risks in the loan and investment portfolio are properly identified and risk-taking activities are consistent with the risk appetite set by the Board of Directors. Furthermore, various tools and methodologies, both quantitative and qualitative, are conducted on a regular basis to measure and assess risks, set up a comprehensive limit structure, and to determine sufficiency of existing capital levels in absorbing market shocks.

In lending, accounts undergo thorough risk assessment to identify and reflect the actual risk profile of the counterparty. From the results of the risk assessment, Management determines the Parent Bank's strategies for these transactions, such as stipulating stricter operating guidelines that will further secure the Parent Bank's position and/or requiring compensating businesses that will enhance the Parent Bank's returns from the transactions. Furthermore, while lending is geared towards public sector project financing for sustainable development, the Parent Bank also extends credit facilities to private companies, financial institutions and micro, small and medium enterprises (mSMEs). Risk profiles of these clients range from low to high risk. As such, the Parent Bank aims for an optimal use of capital through a diversified portfolio of risk exposures. Meanwhile, through instituted risk management processes, various simulations and regular stress testing are conducted on proposed major business and investment considerations to determine impact on the Parent Bank's capital, monitor its varying degrees of vulnerability, and approximate effect of such to the Parent Bank's financial condition.

Capital Adequacy Framework

The Bank adheres to the capital standards outlined in the Basel II capital adequacy framework. The Basel II framework was implemented in the Philippine Banking System under the guidance of the Bangko Sentral ng Pilipinas (BSP) in July 2007. The framework aims to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system; enhance competitive equality; and constitute a more comprehensive approach to addressing risks. The Parent Bank has adopted the Standardized Approach for market and credit risk capital charging while the calculation of the operational risk capital charge is based on the Basic Indicator Approach. The Basic Indicator Approach.

Basel II to Basel III

As an offshoot of the 1988 Capital Accord or Basel I and building on the "International Convergence of Capital Measurement and Capital Standards" document called Basel II, the Basel Committee on Banking Supervision (BCBS) created Basel III in the aftermath of the Global Financial Crisis to strengthen regulation, supervision and risk management of the Parent Banking sector. The new Basel rules are structured around several regulatory objectives to promote capital resilience, among others, of the Parent Banking sector. It contains a new regulatory capital framework aimed at improving the quality of capital and increasing the level of capital held by UKBs.

The BSP requires full implementation of Basel III beginning January 2014 as contained in the BSP Circular 781 or the Implementing Guidelines on Basel III Capital Requirements approved by the Monetary Board on December 14, 2012.

Enterprise Risk Management and Internal Capital Adequacy Assessment Process

Using a risk-based approach in managing the institution, the Parent Bank continues to strengthen its Enterprise Risk Management (ERM) framework, integrating the concepts of strategic planning, operations management and internal controls. The four integral components of the ERM framework—Measurement, Infrastructure, Strategy, and Organization—are continuously assessed and reviewed.

As part of the ERM framework and as mandated by the BSP, the Parent Bank has fully implemented the Pillar II framework under the Basel II Capital Accord. The Parent Company has institutionalized the Internal Capital Adequacy Assessment Process (ICAAP), aimed at assessing the institution's overall capital adequacy in relation to its risk profile and defining a strategy to maintain sufficient capital levels.

Capital Management

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781 (series of 2013) or the Basel III Implementing Guidelines on Minimum Capital Requirements. This provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of at least 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

The Bank maintains a sufficient capital base to support its risk-taking activities resulting in a consistently high Capital Adequacy Ratio (CAR) of over 16.60%, as compared with the industry average of 15.55% (solo basis) and 16.40% (consolidated basis) as of September 2015. The regulatory minimum threshold is currently at 10%. Aside from its CAR, the Parent Bank's CET 1 and Tier 1 ratios has remained robust in 2014 averaging at 10.64%. These above-minimum capital ratios reflect the Parent Bank's ability to absorb significant market shocks, low vulnerability to external disruptions and sufficient capital buffer to support business growth and expansion even in a low-growth environment. It is also in the Parent Bank's interest to consistently maintain capital ratios that surpass industry average in order to fulfill its development mandate, more so on situations where banks, in general, tend to be risk-averse.

The Parent Company's CAR from December 2014 to December 2015 is illustrated as follows:



Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, other comprehensive income (net unrealized gains or losses on AFS securities and cumulative foreign currency translation) and non-controlling interest less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), deferred income tax, other intangible assets, defined benefit pension fund assets and goodwill.

Common equity tier 1 (CET 1) is calculated as follows:

COMMON EQUITY TIER 1 (CET 1) CAPITAL (In million pesos)	Group	Parent
Gross CET 1 Capital		
Paid-up common stock	12,500	12,500
Retained earnings	26,762	26,661
Net unrealized gains / (losses) on AFS securities	(1,500)	(1,500)
Cumulative foreign currency translation	0	0
Minority interest in subsidiary banks which are less than wholly-owned	0	0
Gross CET 1 Capital	37,762	37,661
Regulatory adjustments to CET 1 Capital increase / (decrease)		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	(149)	(149)
Deferred tax assets	(2,814)	(2,814)
Other intangible assets	(346)	(346)
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any	0	(1,123)
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any	0	0
Significant minority investments (10%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases) 13/	(352)	(352)
Minority investments (below 10% of voting stock) in subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/ brokers and insurance companies), after deducting related goodwill, if any (for both solo and consolidated bases) 13/	(241)	(241)
Other equity investments in non-financial allied undertakings and non-allied undertakings	(6,902)	(6,900)
Total Regulatory adjustments to CET 1 Capital	(10,804)	(11,925)
TOTAL CET1 CAPITAL	26,958	25,736
CET 1 Capital Requirements (6.0% of RWA)		
Credit Risk	14,455	14,277
Market Risk	66	66
Operational Risk	1,324	1,311
TOTAL CET 1 CAPITAL REQUIREMENT	15,845	15,654
CAPITAL CONSERVATION BUFFER		
(Total CET 1 capital less Total CET1 capital requirement)	11,113	10,082

Under Executive Order No. 81 series of 1986, as revised by Republic Act (RA) No. 8523 series of 1998, DBP’s authorized share capital is PhP35 billion divided into 350 million common shares with a par value of PhP100 per share, of which 125 million shares are fully paid-up and subscribed by the Government. This qualifies as CET 1 capital pursuant to BSP Cir. No. 781. Common shares represent the most subordinated claim in liquidation and are entitled to an unlimited and variable claim on the residual assets after all senior claims have been repaid in liquidation. Common stock takes the first and proportionately greatest share of any losses as they occur. Principal of the common shares is perpetual and never repaid outside of liquidation, with no expectation the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation. Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap, but not beyond the level of distributable items. Distributions are obligatory pursuant to the provisions of Republic Act No. 7656, with the Parent Bank mandated to remit at least 50.00% of their annual net earnings (plus provisions less write-offs and other deductions/additions stated in the National Internal Revenue Code of 1997, as amended (NIRC), as cash, stock, or property dividends to the Government. RA 7656 provides a flexibility clause, whereby in the interest of national economy and general welfare, the percentage of annual net earnings that shall be declared may be adjusted by the President of the Philippines upon the recommendation of the Secretary of Finance. Any adjustment in the percentage of annual net earnings that shall be declared by the Parent Bank as dividends to the Government may take into account, among other financial and fiscal considerations, the need for revenues by the Government, the level of the Parent Bank’s liquidity and implementation of critical capital projects and statutory obligations.

Under the Basel III regulatory capital regime, the Parent Bank has no instrument issued that is eligible as Additional Tier 1 (AT1) capital, hence, Total Tier 1 consists solely of and is equivalent to the level of CET 1 capital. Total Tier 1 capital is calculated as follows:

TOTAL TIER 1 (CET1) CAPITAL (In million pesos)	Group	Parent
Gross Tier 1 Capital		
Gross CET1 Capital	37,762	37,661
Instruments issued by the Parent Bank that are eligible as Additional Tier 1 (AT1) capital	0	0
Gross Tier 1 Capital	37,762	37,661
Regulatory adjustments to Tier 1 Capital increase / (decrease)		
Total Regulatory adjustments to CET 1 capital	(10,804)	(11,925)
Regulatory adjustments to AT1 capital	0	0
Total Regulatory adjustments to Tier 1 Capital	(10,804)	(11,925)
TOTAL TIER 1 CAPITAL	26,958	25,736
Tier 1 Capital Requirements (7.5% of RWA)		
Credit Risk	18,068	17,847
Market Risk	83	83
Operational Risk	1,655	1,638
TOTAL TIER 1 CAPITAL REQUIREMENT	19,806	19,568

The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

Tier 2 capital is calculated as follows:

TIER 2 CAPITAL (In million pesos)	Group	Parent
Gross Tier 2 Capital		
Instruments issued by the Parent Bank that are eligible as Tier 2 capital	15,634	15,634
General loan loss provision, limited to a maximum of 1.00% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	2,411	2,080
Gross Tier 2 Capital	18,045	17,714
Regulatory adjustments to Tier 2 Capital increase / (decrease)	-	-
Total Regulatory adjustments to Tier 2 Capital	-	-
TOTAL TIER 2 CAPITAL	18,045	17,714

In March 2012, the Parent Bank issued PhP5.6 billion worth of fixed rate unsecured subordinated notes eligible as Tier 2. The notes will mature in September 2022 or a tenor of ten and a half years, provided that the Notes are not previously redeemed by the Parent Bank. The notes bear interest at the rate of 5.75% per annum payable quarterly in arrears. The capital notes are subject to optional redemption in 2017 and have no step-up feature. Minimum denomination is PhP500 thousand with integral multiples of PhP100 thousand thereafter. The notes are subordinated in right of payment to claims of all depositors and other creditors of the Parent Bank, except those creditors that are expressly ranked equally with or junior to the Holders in right of payment, not subject to set-off and not eligible for collateral for any loan made by the Parent Bank. These notes shall be capital-eligible until end-2015, pursuant to Section 4 of BSP Cir. 781.

The remaining PhP10.0 Billion Tier 2 notes was issued in November 2013 and is fully compliant with Basel III. These will mature on November 20 2023, if not redeemed earlier. The notes bear interest at the rate of 4.875% per annum with interest payable quarterly in arrears. The notes qualify as Tier 2 capital pursuant to BSP Cir. 781 Discounts of 20.0% and 40.0% are given in 2018 and 2019, respectively, per Basel III guidelines for treatment as regulatory capital. The notes have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. A Non-Viability Event is deemed to have occurred when the Issuer is considered non-viable as determined by the BSP. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the Notes to the extent required by the BSP, which could go to as low as zero. A Non-Viability Write- Down shall have the following effects: (a) it shall reduce the claim on the Notes in liquidation; (b) reduce the amount re-paid when a call or redemption is properly exercised, and (c) partially or fully reduce the interest payments on the Notes. Subject to the existence of certain conditions, the happening of certain events, and the approval by the BSP, the Parent Bank may redeem the Notes in whole but not in part: at any time beginning on November 20, 2018 and on any Interest Payment Date thereafter (“Redemption Option”), upon the happening of a Tax Event (“Tax Redemption”), or upon the happening of a Capital Event (“Regulatory Redemption”), in all cases at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest. The notes constitute direct, unconditional, unsecured, and subordinated obligations of the Parent Bank. The notes will at all times rank pari passu and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Bank.

The remaining Tier 2 is composed of general loan loss provisions, amount of which is 1% of Credit RWA.

Risk Limit Structure

The Bank’s risk management limit structures on investments and trading activities are based on its risk appetite translated as management’s perspective of the tolerable reduction in its capital adequacy. Risk Factors and corresponding capital requirements are taken into consideration in evaluating new products and investment structures.

Integrated Stress Testing

Stress Testing is a key component of the risk management process which allows the institution to be able to identify its vulnerabilities to exceptional but plausible events or scenarios. Stress Tests have served the purpose of providing the Board and Senior Management with potential adverse outcomes that may impact the Parent Bank’s performance and attainment of certain business objectives given a variety of risks to which it is exposed to. As such, the Parent Bank may position itself to address and mitigate these risks and provide the necessary capital cushion to ensure higher loss absorptive capacity given possible large shocks and have the ability to endure deteriorating economic conditions.

The Integrated Stress Testing aims to provide a comprehensive enterprise-wide assessment of DBP’s vulnerabilities in quantitative terms under various scenarios. Further, this assists the Parent Bank in the following efforts:

- Effective management of concentration risk
- Define parameters for limit-setting
- Determine the ideal level of capital for each business undertaking or risk exposure that is sufficient enough to absorb market shocks on every conceptualized stress scenario.
- Improve assessment of the risk-return trade off
- Identify threat to the Parent Bank’s liquidity position in a timely manner
- Determine relationship of stress events with specific risk factors based on observable data within an appropriately defined time frame.

NOTE 6 – MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The tables below show the assets and liabilities analyzed according to when they are expected to be recovered or settled: (In thousand pesos)

	Group 2015					Total
	Up to 3 months	Over 3 – 6 months	Over 6 months – 1 year	Over 1 – 5 years	Over 5 years	
Assets						
Cash and other cash items	3,043,421	0	0	0	0	3,043,421
Due from BSP	90,504,709	0	0	0	0	90,504,709
Due from other banks	11,357,633	0	0	0	0	11,357,633
Loans – net	80,894,438	7,057,768	12,578,386	48,671,228	86,291,612	235,493,432
Investment securities	46,670,531	32,136,419	1,503,989	10,184,654	66,021,116	156,516,709
Other assets	(182,412)	727,820	1,456,629	35,737	6,396,242	8,434,016
Total Assets	232,288,320	39,922,007	15,539,004	58,891,619	158,708,970	505,349,920
Liabilities						
Due to BSP/other banks	277	0	0	0	0	277
Deposits	162,109,212	11,228,721	4,451,987	146,504,140	112	324,294,172
Borrowings	26,730,311	16,370,052	4,144,027	16,152,779	52,272,344	115,669,513
Other liabilities	11,606,871	77,290	57,982	15,808,204	18,992	27,569,339
Total Liabilities	200,446,671	27,676,063	8,653,996	178,465,123	52,291,448	467,533,301
Asset-liability gap	31,841,649	12,245,944	6,885,008	(119,573,504)	106,417,522	37,816,619

	Group 2014 As restated					Total
	Up to 3 months	Over 3 – 6 months	Over 6 months – 1 year	Over 1 – 5 years	Over 5 years	
Assets						
Cash and other cash items	2,754,635	0	0	0	0	2,754,635
Due from BSP	104,327,504	0	0	0	0	104,327,504
Due from other banks	17,009,729	0	0	0	0	17,009,729
Loans – net	49,884,841	6,843,735	6,184,078	34,479,542	102,742,266	200,134,462
Investment securities	37,560,068	26,964,858	1,325,913	9,559,182	63,237,783	138,647,804
Other assets	(1,002,072)	(1,586,072)	1,851,762	32,241	5,827,434	5,123,293
Total Assets	210,534,705	32,222,521	9,361,753	44,070,965	171,807,483	467,997,427
Liabilities						
Due to BSP/other banks	546	0	0	0	0	546
Deposits	154,940,274	3,363,480	2,343,082	133,036,534	31	293,683,401
Borrowings	18,964,873	3,808,798	9,389,387	15,232,173	51,431,766	98,826,997
Other liabilities	16,922,920	73,931	55,185	15,714,376	3,054	32,769,466
Total Liabilities	190,828,613	7,246,209	11,787,654	163,983,083	51,434,851	425,280,410
Asset-liability gap	19,706,092	24,976,312	(2,425,901)	(119,912,118)	120,372,632	42,717,017

	Parent 2015					Total
	Up to 3 months	Over 3 – 6 months	Over 6 months – 1 year	Over 1 – 5 years	Over 5 years	
Assets						
Cash and other cash items	3,029,525	0	0	0	0	3,029,525
Due from BSP	89,998,279	0	0	0	0	89,998,279
Due from other banks	11,330,907	0	0	0	0	11,330,907
Loans – net	81,242,488	6,962,479	12,385,045	47,741,949	85,630,182	233,962,143
Investment securities	46,670,531	32,136,419	1,503,989	10,167,493	66,019,965	156,498,397
Other assets	812,119	725,157	1,450,314	0	6,251,125	9,238,715
Total Assets	233,083,849	39,824,055	15,339,348	57,909,442	157,901,272	504,057,966
Liabilities						
Due to BSP/other banks	277	0	0	0	0	277
Deposits	161,837,911	11,213,322	4,451,987	146,504,140	112	324,007,472
Borrowings	26,684,416	16,363,897	3,819,872	15,665,415	52,272,344	114,805,944
Other liabilities	11,600,306	77,129	32,127	15,633,796	0	27,343,358
Total Liabilities	200,122,910	27,654,348	8,303,986	177,803,351	52,272,456	466,157,051
Asset-liability gap	32,960,939	12,169,707	7,035,362	(119,893,909)	105,628,816	37,900,915

	Parent 2014					Total
	Up to 3 months	Over 3 – 6 months	Over 6 months – 1 year	Over 1 – 5 years	Over 5 years	
Assets						
Cash and other cash items	2,736,300					2,736,300
Due from BSP	103,898,378					103,898,378
Due from other banks	16,782,163					16,782,163
Loans – net	50,355,964	6,811,445	6,103,014	34,057,555	102,392,210	199,720,188
Investment securities	37,559,907	26,959,716	1,325,825	9,505,395	63,236,633	138,587,476
Other assets	(73,784)	(1,590,589)	1,825,536	0	5,626,834	5,787,997
Total Assets	211,258,928	32,180,572	9,254,375	43,562,950	171,255,677	467,512,502
Liabilities						
Due to BSP/other banks	546	0	0	0	0	546
Deposits	154,806,219	3,345,962	2,343,082	133,036,534	31	293,531,828
Borrowings	18,953,978	3,797,903	9,367,597	15,008,605	51,431,766	98,559,849
Other liabilities	16,891,967	42,791	37,758	15,627,231	0	32,599,747
Total Liabilities	190,652,710	7,186,656	11,748,437	163,672,370	51,431,797	424,691,970
Asset-liability gap	20,606,218	24,993,916	(2,494,062)	(120,109,420)	119,823,880	42,820,532

NOTE 7 - CASH AND CASH EQUIVALENTS

This account at December 31 consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Cash and other cash items	3,043,421	2,754,635	3,029,525	2,736,300
Due from Bangko Sentral ng Pilipinas*	90,500,010	104,321,925	89,993,695	103,892,909
Due from other banks*	11,357,633	17,009,729	11,330,907	16,782,163
Interbank loans receivable*	4,073,314	12,132,092	4,073,314	12,132,092
Securities purchased under agreement to resell *	32,403,000	6,727,000	32,403,000	6,727,000
	141,377,378	142,945,381	140,830,441	142,270,464

Due from other banks includes short-term investments/placements of subsidiaries in the Parent Bank's Trust Services with maturity of three (3) months or less from the date of acquisition.

The undrawn borrowing facilities of the Parent Bank that may be available for future operating activities and to settle capital commitments as of December 31, 2015 amounted to P8.875 billion.

Interbank Loans Receivable (IBLR) represents the Parent Bank's placements with the BSP with maturities of 3 months or less from the date of acquisition.

The outstanding balance of Securities Purchased Under Agreement to Resell (SPUAR) under the Regular Banking Unit represents the Parent Bank's overnight placements with the BSP where the underlying securities cannot be sold or repledged.

*Exclusive of accrued interest receivable as follows

	Group		Parent	
	2015	2014	2015	2014
Due from Bangko Sentral ng Pilipinas	4,699	5,579	4,584	5,469
Due from other banks	0	0	0	0
Interbank loans receivable	100	405	100	405
Securities purchased under agreement to resell	31,752	15,696	31,752	15,696

NOTE 8 - DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Group's demand and time deposits in local and foreign currencies maintained with BSP to meet reserve requirements and to serve as clearing account for interbank claims consistent with BSP guidelines. DBP, as a government financial institution (GFI), maintains BSP as its major depository.

NOTE 9 - INTERBANK LOANS RECEIVABLE

This account consists of loans and placements granted to the following banks: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Domestic	0	0	0	0
Foreign	4,073,314	12,132,092	4,073,314	12,132,092
	4,073,314	12,132,092	4,073,314	12,132,092
Accrued interest receivable	100	405	100	405
	4,073,414	12,132,497	4,073,414	12,132,497

Interbank loans receivable of the Group carry interest rates at December 31 as follows:

	2015	2014
Domestic	-	-
Foreign currency denominated	0.050% to 0.380%	0.070% to 0.220%

NOTE 10 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Debt securities purchased				
Government	188,899	3,616,208	188,899	3,616,208
Private	141,847	0	141,847	0
	330,746	3,616,208	330,746	3,616,208
Equity securities	44	52	44	52
Derivatives with positive fair value	26	2,812	26	2,812
	330,816	3,619,072	330,816	3,619,072
Accrued interest receivable	3,428	6,729	3,428	6,729
	334,244	3,625,801	334,244	3,625,801

The movement of this account is summarized as follows: (In thousand pesos)

	Group	Parent
At December 31, 2014	3,625,801	3,625,801
Additions	95,359,174	95,359,174
Disposals	(98,672,884)	(98,672,884)
Fair value adjustments	4,635	4,635
Exchange differences	20,819	20,819
Net change in accrued interest receivable	(3,301)	(3,301)
At December 31, 2015	334,244	334,244

The FVTPL of the Group carry interest rates at December 31 as follows:

	2015	2014
Peso denominated	3.375%-4.125%	0.000%-3.500%
Foreign currency denominated	2.250%-5.950%	4.200%-6.375%

NOTE 11 – FINANCIAL ASSETS AVAILABLE FOR SALE (AFS)

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Debt securities:				
Government				
Treasury notes	23,222,884	20,623,760	23,222,884	20,623,760
Retail treasury bonds	9,271,008	10,155,612	9,271,008	10,105,362
Treasury bonds – ROP	5,424,354	6,025,326	5,424,354	6,025,326
Treasury bonds – US	4,128,133	0	4,128,133	0
Other Gov't Guaranteed Securities – PSALM / NPC/Indonesian Bonds	8,220,164	4,860,160	8,220,164	4,860,160
Purchased Onshore Dollar Bonds	0	1,463,852	0	1,463,852
Pertamina Persero PT (PERIJ Bonds)	0	889,034	0	889,034
State Bank of India Bonds	0	688,384	0	688,384
Industrial Credit and Investment Corp. of India Bank Ltd.	981,827	467,476	981,827	467,476
Under Repurchased	11,213,975	7,401,913	11,213,975	7,401,913
Global Peso Note	557,212	303,945	557,212	303,945
	63,019,557	52,879,462	63,019,557	52,829,212
Private				
Quoted	13,173,544	5,917,214	13,173,544	5,917,214
Unquoted	0	0	0	0
	13,173,544	5,917,214	13,173,544	5,917,214
	76,193,101	58,796,676	76,193,101	58,746,426
Equity securities:				
Government	201,600	201,600	201,000	201,000
Private – Quoted	90	88	0	0
– Unquoted	7,051,627	6,716,626	7,051,076	6,716,076
	7,253,317	6,918,314	7,252,076	6,917,076
	83,446,418	65,714,990	83,445,177	65,663,502
Accrued interest receivable	781,764	616,338	781,764	616,176
Unearned interest and income	(163,428)	(171,919)	(163,428)	(171,919)
	84,064,754	66,159,409	84,063,513	66,107,759
Allowance for impairment	(274,242)	(274,242)	(274,242)	(274,242)
	83,790,512	65,885,167	83,789,271	65,833,517

The Parent Bank's AFS is carried at inclusive/net of accumulated unrealized gain/(loss) of (P1,503) million and (P719) million as of December 31, 2015 and 2014, respectively.

The movement in AFS is summarized as follows: (In thousand pesos)

	Group	Parent
At December 31, 2014	65,885,167	65,833,517
Additions	76,632,782	76,632,782
Disposals	(60,087,886)	(60,037,637)
Fair value adjustments	(1,374,199)	(1,374,199)
Exchange differences	2,560,730	2,560,729
Net change in accrued interest receivable	165,426	165,588
Net change in allowance for impairment loss	0	0
Net change in unearned interest and income	8,492	8,491
At December 31, 2015	83,790,512	83,789,271

The AFS of the Group carry interest rates at December 31 as follows:

	2015	2014
Peso denominated	1.625% - 13.750%	1.625% - 13.750%
Foreign currency denominated	0.481% - 10.625%	2.000% - 14.000%

NOTE 12 - FINANCIAL ASSETS HELD TO MATURITY (HTM)

This account consists of debt securities at amortized cost: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Domestic				
Government				
Treasury notes	39,340,604	40,558,175	39,323,600	40,558,175
Retail treasury bonds	12,699,646	13,597,732	12,699,646	13,597,732
Treasury bills	0	8,616	0	0
Land Bank bonds	9,618	11,151	9,618	11,151
Private	7,900,000	2,900,000	7,900,000	2,900,000
	59,949,868	57,075,674	59,932,864	57,067,058
Foreign	11,592,944	11,239,394	11,592,944	11,239,394
	71,542,812	68,315,068	71,525,808	68,306,452
Accrued interest receivable	931,055	861,905	930,988	861,843
Unearned interest and income	(81,914)	(40,137)	(81,914)	(40,137)
	72,391,953	69,136,836	72,374,882	69,128,158

Government securities amounting to P832 million are deposited with BSP as security for trust duties (see Note 34).

The movement of this account is summarized as follows: (In thousand pesos)

	Group	Parent
At December 31, 2014	69,136,836	69,128,158
Additions	5,008,388	5,000,000
Maturities	(1,988,144)	(1,988,144)
Exchange differences	577,043	577,043
Accretion/(amortization) of Premium	(369,543)	(369,543)
Net change in accrued interest receivable	69,150	69,145
Net change in unearned interest and discount	(41,777)	(41,777)
At December 31, 2015	P72,391,953	P72,374,882

The HTM of the Group carry interest rates at December 31 as follows:

	2015	2014
Peso denominated	3.625% - 15.000%	2.125% - 15.000%
Foreign currency denominated	4.000% - 10.625%	4.000% - 10.625%

Bond Swap

The Republic of the Philippines (RoP) successfully completed its biggest domestic swap transaction in July 2011 to strengthen the fiscal position of the Republic as short and medium term debt swapped for longer-dated securities. It also reaffirmed the growing investor confidence in long-term investments. Total issuance amounted to P 67.6 billion of 10 year bonds due January 19, 2022 and P 255.8 billion of 20-year due July 19, 2031 in exchange for P 292.5 billion eligible bonds as approved by the Department of Finance.

The Securities and Exchange Commission has exempted from "tainting" provision of the Philippine Accounting Standard No. 39 ("PAS 39") the exchange of a not insignificant amount of Eligible Bonds for Benchmark Bonds categorized under Held-to-Maturity ("HTM") category subject to specific conditions. Exemption from Tainting Provision (Item No. 12) of the Terms of the Invitation of the Exchange Offer Memorandum dated July 5, 2011 or the "Invitation" by the Republic of the Philippines provides the cited conditions:

- Submission of disclosure of the exchange as to the date, amount of the bonds covered and the amount of the total Held to Maturity (HTM) portfolio within ten (10) days from said transaction
- Non-recognition of any Day 1 profit / (loss) from the exchange. Any unrealized gains / (losses) shall be amortized over the term of the new bonds
- Exemption from tainting are not extended to exchanges where entities choose to reclassify the exchange bonds as AFS or HFT securities
- Preparation of financial statements is not based on prescribed financial reporting framework under PFRS but on given relief from certain requirements of the full PFRS which will be adopted until such time that the ground for its coverage under the tainting rule of PAS 39 is no longer present
- Obtain clearance from Bangko Sentral ng Pilipinas, as primary regulator for banks

Similarly, the Monetary Board under Resolution No. 1147 (BSP Circular No. 738 dated July 29, 2011) approved the guidelines on the treatment of securities specifically booked under HTM category which exempts from the “tainting” provision for prudential reporting purposes the securities offered and accepted in tender offers pursuant to liability management transactions of the Republic of the Philippines provided that the Parent Bank maintains appropriate documentation on such transactions.

In July 2011, the Parent Bank participated in bond exchange covering its P 5.15 billion eligible government bonds classified as Held for Trading, Available for Sale and Held to Maturity investments to lengthen maturity profile, with maturities ranging from 2012 -2021 to 2031 and to benefit from higher yields. The Parent Bank complied with the disclosure and other requirements of SEC as follows:

- a) Total investments portfolio before and after the exchange relatively remained the same with total trading gain of P141.59 million. The gain on exchange for HFT and AFS accounts of P103.77 million was realized while gain for HTM of P37.82 million was deferred and is being amortized over the terms of the new bonds with maturities of 2022 and 2031; and
- b) As disclosed in Note 2, the financial statements of the Parent Bank have been prepared in accordance with BSP Circular No. 738 s. 2011 and the SEC letter dated June 28, 2011.

NOTE 13 - LOANS AND RECEIVABLES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Loans and discounts	156,366,761	140,244,657	153,803,441	139,042,625
Unquoted debt securities classified as loan (UDSCL)	35,326,600	39,122,788	35,326,600	39,122,788
Customers' liabilities under letters of credit/trust receipts	13,185,745	7,514,410	13,185,745	7,514,410
Bills purchased	200	19,870	200	19,870
	204,879,306	186,901,725	202,315,986	185,699,693
Accounts receivable (AR) – advances on loans	34,527	11,645	34,527	11,645
Sales contract receivables (SCR)	33,822	44,522	33,804	44,504
	204,947,655	186,957,892	202,384,317	185,755,842
Accrued interest receivable	1,034,843	1,055,395	1,032,655	1,054,007
	205,982,498	188,013,287	203,416,972	186,809,849
Unearned discount/income	(502,088)	(265,063)	(15,724)	(13,345)
Discount	(753)	(250,982)	(753)	(250,982)
Allowance for impairment and credit losses	(6,494,391)	(6,237,973)	(5,946,518)	(5,700,527)
	198,985,266	181,259,269	197,453,977	180,844,995

The Group's Loans and Discounts include Finance lease receivable.

The Parent Bank's total loans (excluding UDSCL) classified as to type of interest rate as of December 31, 2015 and 2014 are P 85,469 million and P 83,223 million (variable interest rates) and P 81,520 million and P 63,354 million (fixed interest rates), respectively. Loans and other receivables bear annual interest rates of 0 per cent to 30 per cent per annum in 2015 and 2014 in the Parent Bank's financial statements.

The details of the Group's finance lease receivable as of December 31, 2015 are as follows:

	Group
Total future minimum lease payments	2,371,625
Unearned finance income	(486,364)
Present value of future minimum lease payments	1,885,261
Details of future minimum lease payments follow:	
Not later than one year	584,435
Later than one year but not later than five years	1,349,566
Later than five years	437,624
	2,371,625
Unearned finance income	(486,364)
	1,885,261

Non-performing loans included in the total loan portfolio of the Group and the Parent Bank as of December 31, 2015 and 2014 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772:

	Group		Parent	
	2015	2014	2015	2014
Non-Performing Loans (NPL)				
Gross NPL	P 6,634,365	P 5,534,697	P 6,610,034	P 5,514,109
Less: Allowance for impairment loss	(3,836,331)	(3,413,025)	(3,834,909)	(3,411,739)
Net NPL	P 2,798,034	P 2,121,672	P 2,775,125	P 2,102,370
NPL Rates				
Gross NPL	3.22%	3.33%	3.25%	3.34%
Net NPL	1.36%	1.28%	1.36%	1.27%

The wholesale lending portfolio for both December 31, 2015 and 2014 represents 2 per cent of the Parent Bank's total loan portfolio. These loans pertain to the conduit lending granted to 55 accredited financial institutions for various developmental projects with longer gestation periods payable at determinable amounts and fixed maturity dates. The risks associated to the loans are secured by a Deed of Assignment of the mortgaged collaterals executed by all the participating financial institutions.

Details of the loans and receivables as to industry/economic sector at December 31, 2015 are as follows: (In percent)

	2014	
	Group	Parent
Financial and insurance activities	9.94	10.07
Electricity, gas, steam and aircon supply	15.26	15.41
Water supply and sewerage	7.95	8.05
Manufacturing	6.87	6.95
Real estate activities	10.00	8.95
Wholesale and retail trade, repair of motor vehicles	19.30	19.55
Transportation and storage	12.11	12.26
Public administration and defense	8.14	8.22
Education, health and community services	3.79	3.83
Others	6.64	6.71
	100.00	100.00

The Parent Bank’s classification of loans as to security exclusive of AR – advances on loans, SCR and AIR is as follows: (In thousand pesos)

2015				2014			
Secured:							
Retail	71,982,008		100%	69,837,012		100%	
Wholesale	0		0%	0		0%	
	<u>71,982,008</u>	36%	<u>100%</u>	<u>69,837,012</u>	38%	<u>100%</u>	
Unsecured:							
Retail	126,864,180		97%	112,735,709		97%	
Wholesale	3,469,799		3%	3,126,972		3%	
	<u>130,333,979</u>	64%	<u>100%</u>	<u>115,862,681</u>	62%	<u>100%</u>	
	<u>202,315,987</u>	<u>100%</u>		<u>185,699,693</u>	<u>100%</u>		

NOTE 14 – BANK PREMISES (INCLUDING LEASEHOLD IMPROVEMENTS), FURNITURE, FIXTURES AND EQUIPMENT

This account represents the book value of the following assets: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Land	747,264	747,264	747,264	747,264
Construction in progress	261,340	29,502	261,340	29,502
Building	613,134	640,446	613,134	640,445
Leasehold improvements	115,519	86,384	114,846	83,640
Computer equipment	367,691	221,304	364,791	218,067
Office equipment, furniture and fixtures	196,770	197,854	193,128	192,867
Transportation equipment	165,965	101,491	163,151	99,412
Total	2,467,683	2,024,245	2,457,654	2,011,197

Broken down as follows (In thousand pesos):

	Group							Total
	Land	Construction in Progress	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	
At January 1, 2015								
Cost	747,264	29,751	1,165,771	140,115	780,373	657,640	615,696	4,136,610
Intracompany transactions	0	0	0	0	0	0	(280)	(280)
Accumulated depreciation	0	(249)	(518,971)	(53,731)	(559,069)	(459,786)	(513,925)	(2,105,731)
Allowance for impairment	0	0	(6,354)	0	0	0	0	(6,354)
Net book amount	747,264	29,502	640,446	86,384	221,304	197,854	101,491	2,024,245
Year ended December 2015								
Opening net book amount	747,264	29,502	640,446	86,384	221,304	197,854	101,491	2,024,245
Additions	0	228,476	16,250	59,457	244,224	60,054	100,204	708,665
Disposals	0	7,202	0	0	(64,350)	(27,709)	(19,157)	(104,014)
Depreciation/Amortization	0	0	(40,880)	(31,635)	(54,559)	(25,835)	(34,788)	(187,697)
Adjustments – cost	0	(4,089)	(2,664)	(7,573)	(5,787)	(15,148)	(3,238)	(38,499)
Adjustments - accumulated depreciation	0	249	(18)	8,886	26,859	7,554	21,453	64,983
Allowance for probable loss	0	0	0	0	0	0	0	0
Closing net book amount	747,264	261,340	613,134	115,519	367,691	196,770	165,965	2,467,683
At December 31, 2015								
Cost	747,264	261,340	1,179,357	191,999	954,460	674,837	693,225	4,702,482
Accumulated depreciation	0	0	(559,869)	(76,480)	(586,769)	(478,067)	(527,260)	(2,228,445)
Allowance for impairment	0	0	(6,354)	0	0	0	0	(6,354)
Net book amount	747,264	261,340	613,134	115,519	367,691	196,770	165,965	2,467,683

	Parent							Total
	Land	Construction in Progress	Building	Leasehold Improvement	Computer Equipment	Office Machine, Furniture and Fixtures	Transportation Equipment	
At January 1, 2015								
Cost	747,264	29,751	1,165,771	125,008	767,132	636,681	612,480	4,084,087
Accumulated depreciation	0	(249)	(518,972)	(41,368)	(549,065)	(443,814)	(513,068)	(2,066,536)
Allowance for impairment	0	0	(6,354)	0	0	0	0	(6,354)
Net book amount	747,264	29,502	640,445	83,640	218,067	192,867	99,412	2,011,197
Year ended December 2015								
Opening net book amount	747,264	29,502	640,445	83,640	218,067	192,867	99,412	2,011,197
Additions	0	228,476	16,250	59,458	243,570	59,820	99,106	706,680
Disposals	0	7,202	0	0	(63,925)	(27,161)	(19,157)	(103,041)
Depreciation/Amortization	0	0	(40,880)	(29,564)	(53,585)	(24,268)	(34,432)	(182,729)
Adjustments – cost	0	(4,089)	(2,664)	(3,958)	(5,874)	(14,673)	(3,165)	(34,423)
Adjustments - accumulated depreciation	0	249	(17)	5,270	26,538	6,543	21,387	59,970
Allowance for probable loss	0	0	0	0	0	0	0	0
Closing net book amount	747,264	261,340	613,134	114,846	364,791	193,128	163,151	2,457,654
At December 31, 2015								
Cost	747,264	261,340	1,179,357	180,508	940,903	654,667	689,264	4,653,303
Accumulated depreciation	0	0	(559,869)	(65,662)	(576,112)	(461,539)	(526,113)	(2,189,295)
Allowance for impairment	0	0	(6,354)	0	0	0	0	(6,354)
Net book amount	747,264	261,340	613,134	114,846	364,791	193,128	163,151	2,457,654

The appraised value of the Parent Bank's Land, Building and Improvements amounted to P6.520 billion.

NOTE 15 - INVESTMENT PROPERTY

The movement is summarized as follows: (In thousand pesos)

	Group	Parent
At December 31, 2014		
Cost	1,478,638	1,478,638
Accumulated Depreciation	(94,334)	(94,334)
Allowance for Impairment	(76,178)	(76,178)
Net book amount	1,308,126	1,308,126
Year ended December 2015		
Opening net book amount	1,308,126	1,308,126
Additions/Transfers	471,704	471,704
Reclass to NCAHFS/Others	300,196	300,196
Disposals	(158,584)	(158,584)
Depreciation	(79,916)	(79,916)
Adjustment to Accumulated Depreciation	18,403	18,403
Provision for impairment	(55,647)	(55,647)
Closing net book amount	1,804,282	1,804,282
At December 31, 2015		
Cost	2,091,954	2,091,954
Accumulated Depreciation	(155,847)	(155,847)
Allowance for Impairment	(131,825)	(131,825)
Net book amount	1,804,282	1,804,282

Fair value of the account is estimated at P2,764 million both for the Group and the Parent Bank.

NOTE 16 - EQUITY INVESTMENT IN SUBSIDIARIES

This account consists of: (In thousand pesos)

	Parent	
	2015	2014
Investments in subsidiaries		
Acquisition cost:		
Al-Amanah Islamic Investment Bank of the Philippines	1,005,000	1,005,000
DBP Leasing Corporation	1,132,000	1,012,000
DBP Management Corporation	37,500	37,500
DBP Data Center, Inc.	1,530	1,530
	2,176,030	2,056,030
Allowance for impairment	(507,800)	(507,800)
	1,668,230	1,548,230

NOTE 17 - EQUITY INVESTMENT IN ASSOCIATES AND JOINT VENTURE

This account consists of investments in share of stocks as follows: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Associates:				
LGU Guarantee Corporation (36.75% owned)	228,328	216,648	105,908	105,908
DBP Daiwa Securities (26.47% owned)	16,000	16,000	0	0
DBP Service Corporation (29.46% owned)	45,338	39,457	856	856
	289,666	272,105	106,764	106,764
Joint Venture:				
DBP Insurance Brokerage, Inc. (40% owned)	6,957	5,389	4,000	4,000
DBP Daiwa Securities (26.47% owned)	126,386	125,810	45,675	45,675
	133,343	131,199	49,675	49,675
	423,009	403,304	156,439	156,439
Allowance for impairment loss	(3,969)	(1,172)	(3,969)	(1,172)
	419,040	402,132	152,470	155,267

The investment of the Parent Bank's subsidiary, DBP Management Corporation, in DBP Daiwa Securities is accounted under the cost method in the Group's financial statements.

The following tables present financial information of associates and joint venture as of and for the years ended: (In thousand pesos)

	2015		2015	
	Statement of financial position		Statement of profit or loss	
	Total Assets	Total Liabilities	Gross Income	Net Income/(Loss)
LGU Guarantee Corporation	629,695	106,918	71,049	18,513
DBP Daiwa Securities	870,457	299,230	230,954	7,276
DBP Service Corporation	781,880	461,429	1,386,726	27,265
DBP Insurance Brokerage, Inc.	140,702	122,947	26,808	4,837

	2014 As restated		2014 As restated	
	Statement of financial position		Statement of profit or loss	
	Total Assets	Total Liabilities	Gross Income	Net Income/(Loss)
LGU Guarantee Corporation	654,829	129,094	81,049	28,584
DBP Daiwa Securities	1,025,218	445,205	131,104	17,688
DBP Service Corporation	660,697	355,125	1,206,588	31,751
DBP Insurance Brokerage, Inc.	112,384	94,806	20,893	3,918

NOTE 18 - ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES

Changes in the allowance for impairment and credit losses follow: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Balance at beginning of year				
AFS investments (Note 11)	274,242	337,399	274,242	337,399
Loans and receivables (Note 13)	6,237,973	5,996,557	5,700,527	5,675,960
Property, plant and equipment (Note 14)	6,354	6,035	6,354	6,035
Investment property (Note 15)	76,178	59,092	76,178	59,092
Investment in subsidiaries (Note 16)	0	0	507,800	297,000
Investment in associates and joint venture (Note 17)	1,172	0	1,172	0
NCAHFS	163,991	198,221	163,991	198,221
Others (Note 19)	428,536	303,493	310,014	215,913
	7,188,446	6,900,797	7,040,278	6,789,620
Provision for/reversal of impairment and credit losses				
Loans and receivables (Note 13)	259,714	569,494	249,287	563,065
Others (Note 19)	6,624	39,624	2,452	36
	266,338	609,118	251,739	563,101
Charges against reserves				
Write-off:				
Loans and receivables (Note 13)	(48,594)	(481)	(48,594)	(481)
Others (Note 19)	(1,053)	(11,080)	(191)	(11,080)
	(49,647)	(11,561)	(48,785)	(11,561)
Foreclosures:				
Loans and receivables (Note 13)	(7,907)	(145,465)	(7,907)	(145,465)
Others (Note 19)	(83)		(83)	0
	(7,990)	(145,465)	(7,990)	(145,465)
Realized loss on NPAs sold during the year				
Investment property (Note 15)	(33)	(53)	(33)	(53)
NCAHFS	(457)	(6,771)	(457)	(6,771)
Others (Note 19)	(91,990)	0	(91,990)	0
	(92,480)	(6,824)	(92,480)	(6,824)

* table continuation on next pages

	Group		Parent	
	2015	2014	2015	2014
Revaluation:				
Loans and receivables (Note 13)	8,315	1,390	8,315	1,390
Others (Note 19)	235	(70)	235	(70)
	8,550	1,320	8,550	1,320
Other transactions				
AFS investments (Note 11)	0	(63,157)	0	(63,157)
Loans and receivables (Note 13)	44,890	(183,522)	44,890	(393,942)
Property, plant and equipment (Note 14)	0	319	0	319
Investment property (Note 15)	55,680	17,139	55,680	17,139
Investment in subsidiaries (Note 16)	0	0	0	210,800
Investment in associates and joint venture (Note 17)	2,797	1,172	2,797	1,172
NCAHFS	(97,178)	(27,459)	(97,178)	(27,459)
Others (Note 19)	(11,524)	96,569	(11,524)	105,215
	(5,335)	(158,939)	(5,335)	(149,913)
Balance at end of year				
AFS investments (Note 11)	274,242	274,242	274,242	274,242
Loans and receivables (Note 13)	6,494,391	6,237,973	5,946,518	5,700,527
Property, plant and equipment (Note 14)	6,354	6,354	6,354	6,354
Investment property (Note 15)	131,825	76,178	131,825	76,178
Investment in subsidiaries (Note 16)	0	0	507,800	507,800
Investment in associates and joint venture (Note 17)	3,969	1,172	3,969	1,172
NCAHFS	66,356	163,991	66,356	163,991
Others (Note 19)	330,745	428,536	208,913	310,014
	7,307,882	7,188,446	7,145,977	7,040,278

NOTE 19 - OTHER RESOURCES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
		As restated		
Deferred tax assets (Note 20)	2,814,477	2,998,308	2,814,253	2,998,308
Accounts receivable*	(3,184,494)	(6,474,597)	(3,240,995)	(6,529,619)
Prepaid expenses	903,155	964,233	901,161	962,719
Goodwill	387,650	387,650		
Other intangible assets**	346,828	273,846	345,701	272,955
ROPA	72,442	241,372	72,125	241,055
Inter-office float items	90,741	527,555	92,646	527,488
Employee benefits	206,466	203,958	206,466	203,958
Misc. assets – Finance Lease	0	100,000	0	100,000
Dividends and interest receivable	319	319	319	319
Misc. assets - Creditable Withholding Tax (CWT)/ Expanded Withholding Tax (EWT)/Gross Receipts Tax (GRT)	1,431,935	1,037,700	1,426,940	1,033,611
Misc. assets-Installment Receivable	15,896	4,301	15,896	4,301
Miscellaneous	944,986	1,106,932	631,429	764,538
	4,030,401	1,371,577	3,265,941	579,633
Accumulated depreciation	(107,112)	(128,638)	(47,673)	(75,084)
Allowance for impairment	(330,745)	(428,536)	(208,913)	(310,014)
	3,592,544	814,403	3,009,355	194,535

* Accounts Receivable was inclusive of net FX revaluation gain in the amount of P4,482,395 thousand and P7,859,545 thousand in 2015 and 2014, respectively, which was credited to Accounts Receivable Others-NG FX Differential in view of the implementation of BSP MB Resolution 393 dated March 6, 2014.

** Miscellaneous assets – intangibles are software costs accounted for as follows:

	Group		Parent	
	2015	2014	2015	2014
Balance at beginning of year	273,846	257,900	272,955	256,485
Additions/Disposal	155,193	109,367	155,357	109,330
Amortization	(82,211)	(93,421)	(82,611)	(92,860)
Balance at end of year	346,828	273,846	345,701	272,955

NOTE 20 - DEFERRED TAX ASSETS

Components of the deferred tax assets are as follows: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Deferred tax assets on:				
Allowance for impairment	1,865,505	1,852,227	1,865,281	1,852,227
Rent expense	5,492	5,740	5,492	5,740
Net operating loss carry over (NOLCO)	713,379	855,345	713,379	855,345
Gratuity pay	221,423	221,423	221,423	221,423
Trading loss/(gain) revaluation	722	2,044	722	2,044
Unrealized foreign exchange loss/(gain) – net	(11,297)	10,204	(11,297)	10,204
Others	19,253	51,325	19,253	51,325
Net deferred tax assets	2,814,477	2,998,308	2,814,253	2,998,308

NOTE 21- DEPOSIT LIABILITIES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Demand	91,268,021	69,613,990	91,078,822	69,551,714
Savings	134,864,543	131,913,844	134,736,796	131,797,007
Time	98,161,608	92,155,567	98,191,854	92,183,107
	324,294,172	293,683,401	324,007,472	293,531,828

The total liquidity and statutory reserves as reported to BSP of the Parent Bank as of December 31, 2015 and 2014 are as follows (In thousand pesos):

	2015		2014	
	Rate	Amount	Rate	Amount
Statutory/Legal Reserve on Deposits	20%	56,594,869	20%	50,871,189
Available Reserves		56,577,694		51,394,909
Excess		(17,175)		523,720
Liquidity Floor Requirement on Government Funds	30%	52,135,281	30%	50,691,219
Available Reserves		115,007,452		136,906,548
Excess		62,872,171		86,215,329

NOTE 22 - BILLS PAYABLE

The Group and Parent Bank's bills payable consists of the following (In thousand pesos):

	Group		Parent	
	2015	2014	2015	2014
Domestic	5,353,780	3,582,048	4,490,211	3,314,900
Foreign:				
- with FX risk cover	71,748,712	53,882,953	71,748,712	53,882,953
- without FX risk cover	24,493,615	27,995,166	24,493,615	27,995,166
	96,242,327	81,878,119	96,242,327	81,878,119
	101,596,107	85,460,167	100,732,538	85,193,019
Maturities:				
Within one year	48,054,656	29,028,645	48,054,656	29,028,645
Beyond one year	53,541,451	56,431,522	52,677,882	56,164,374
	101,596,107	85,460,167	100,732,538	85,193,019

The 2015 year-end balances of foreign borrowings were revalued using the month-end PDS rate in accordance with PAS 21. The total amount of Bills Payable resulting from repurchase agreement amounted to P 11.09 billion with collateral securities under the Available for Sale Securities which amounted to P 12.16 billion.

Other information about bills payable as of December 31, 2015, are as follows:

	Bills Payable	
	Wholesale	Retail
a. Maturities		
Maximum		
Domestic	5 years	25 years
Foreign	40 years	40 years
Average		
Domestic	1.77 years	6.84 years
Foreign	34.75 years	33.14 years
b. Average rate (interest rate to funders)		
Domestic	1.88%	2.27%
Foreign	1.47%	1.91%
c. Balance (In thousand pesos)		
Maximum month-end balance	41,247,711	18,019,071
Average monthly balance	39,513,919	16,913,096

NOTE 23 - BONDS PAYABLE

The Parent Bank issued 5.5 percent US\$ 300.00 million notes due on March 25, 2021 as approved by the Monetary Board of Bangko Sentral ng Pilipinas. The Notes are direct, unconditional, unsubordinated and unsecured obligations of the Bank and are ranked *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Bank, save for such as may be preferred by mandatory provisions of applicable law. Interest is payable semi-annually every March 25 and September 25. The Bank may, at its option, redeem all, but not less than all, of the Notes at any time at par plus accrued interest, in the event of certain tax changes and each holder of the Notes shall have the right, at its option to require DBP to repurchase all of its notes at a redemption price equal to 101.0 percent of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase.

NOTE 24 - UNSECURED SUBORDINATED DEBT/OTHER EQUITY INSTRUMENT - HYBRID TIER 1

The following capital note issuances are in line with DBP's objective of strengthening its capital base as it supports its various developmental lending activities.

a. Unsecured Subordinated Debt

On March 22, 2012, the Parent Bank issued P5.65 billion worth of fixed rate Unsecured Subordinated Debt eligible as Tier 2 capital to strengthen its capital base and support its various developmental lending activities. The notes will mature in September 2022 or a tenor of ten and a half years. The capital notes are subject to optional redemption in 2017 and has no step-up feature.

The Parent Bank was able to successfully raise a total of P10 billion from the sale of the first-ever Basel 3 Compliant Unsecured Subordinated Debt eligible as Tier 2 Capital last 20 November 2013. The capital note has a 10-year tenor with a call option on the 5th year and was priced at a coupon rate of 4.875% per annum payable quarterly.

b. Other equity instrument – Hybrid Tier 1

On September 8, 2006, the Parent Bank issued HT1 Capital Securities representing US\$130 million, 8.375 percent non-cumulative step-up callable perpetual securities. These were issued pursuant to a trust deed dated 15 September 2006 between the Parent Bank and the Bank of New York (Trustee) with a liquidation preference of US\$1,000 per capital security. Proceeds of the issuance were received on September 15, 2006. The Parent Bank has received approval in-principle from the Singapore Exchange Securities Trading Limited (SGX-ST) for the listing and quotation of the HT1 Capital Securities on the SGX-ST in a minimum board lot size of US\$200,000. Further, the HT1 Capital Securities are governed by the English law, except on certain conditions and clause 7 in the Trust Deed, which are governed by the Philippine law. The BSP has approved up to US\$130 million issuance of the HT1 Capital Securities which are eligible to qualify as Tier 1 Capital of the Parent Bank subject to the limitation based on BSP Circular No. 503 issued on December 22, 2005.

Basic features of the HT1 Capital Securities follow:

- Interest at 8.375 percent per annum payable semi-annually in arrear from 15 September 2006 to 15 September 2016 (the first optional redemption date), and thereafter at a rate, reset and payable quarterly in arrear, of 4.878 per cent per annum above the then prevailing London interbank offered rate for three-month U.S. dollar deposits. The BOD of the Parent Bank may, in its absolute discretion, elect not to make any payment in whole or in part if it has not paid or declared a dividend on its Common Shares in the preceding financial year or determines that no dividend is to be paid on its Common Shares in the current financial year.
- Interest payable on 15 March and 15 September in each year, commencing on 15 March 2007 (in respect of the period from (and including) 15 September 2006 to (but excluding) 15 September 2016 and (subject to adjustment for days which are not business days) on 15 March, 15 June, 15 September and 15 December in each year thereafter.
- Redemption at the option of the Parent Bank (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to the limitation as discussed in the offering circular.
- Rights and claims of the holders are subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Bank, holders will, subject to certain limitations and applicable law, be entitled to receive the liquidation distribution which is equivalent to the liquidation preference plus accrued interest.

The securities are not deposits of the Parent Bank and are not guaranteed or insured by the Parent Bank or any party related to the Parent Bank or the Philippine Deposit Insurance Corporation and these may not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates.

The Parent Bank or any of its subsidiaries may not at any time purchase HT1 Capital Securities except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance.

The HT1 Capital Securities are sold to non-U.S. persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended, and are represented by a Global Certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

The Parent Bank classifies the HT1 Capital Securities under capital funds as other equity instrument in accordance with BSP Circular No. 503 dated December 22, 2005 amounting to P6.525 billion at issuance date. Hence, the interests paid out are recognized as dividends or debited directly to capital funds. However, they are presented separately in the statement of profit or loss and other comprehensive income because its holders are being treated as non-owners. Also, various costs in issuing or acquiring the securities are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction. HT1 Capital Securities were redeemed on September 14, 2015.

NOTE 25 - DEFERRED CREDITS AND OTHER LIABILITIES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Accounts payable	1,314,519	1,175,292	1,330,738	1,128,963
Miscellaneous liability – MRTC				
Preferred shares	80,373	257,088	80,373	257,088
Bonds	0	860,449	0	860,449
Withholding taxes payable	98,531	98,317	95,793	97,366
Unearned income/deferred credits	1,238,162	1,321,912	1,236,240	1,321,873
Derivatives with negative fair value	157,869	126,470	157,869	126,470
Miscellaneous liability – lawsuits	146,113	146,113	146,113	146,113
Cash letters of credit	4,520,383	9,016,128	4,520,383	9,016,128
Outstanding acceptances	121,361	0	121,361	0
Due to Treasury of the Philippines	24,264	17,964	23,424	17,298
Other miscellaneous liabilities	365,377	418,050	192,158	319,571
	8,066,952	13,437,783	7,904,452	13,291,319

Miscellaneous Liability – MRTC

Under the Trust Deed – Terms and Conditions of the Notes on Tranche 3 Notes, “unless previously redeemed and cancelled, the Issuer will make a monthly payment on Tranche 3 Notes to the extent of Share Distributions received by the Issuer and deposited into the Collection Account in the corresponding month and available therefore in accordance with Condition 2 (2), on each Payment Date commencing with the Payment Date on which the Tranche 2-G Notes are paid in full until the Tranche 3 Accreted Value has been reduced to zero. The Issuer will redeem any outstanding Tranche Note 3 at the Tranche 3 Accreted Value on Legal Final maturity Date thereof.”

As of 31 December 2014, the Parent Bank’s total outstanding investment in MRTC bonds amounted to USD 366.54 million or PhP 16.39 billion with face value of USD 632.68 million, as reflected in custodian bank, Clearstream (Cedel) and the total amount received for the monthly payment for Tranche 3 Notes amounted to USD 19.24 million equivalent to PhP 860.45 million.

In 2015, the Parent Bank applied these remittances against the MRTC bonds classified as UDSCL following COA’s observation. As of December 31, 2015, the Parent Bank’s total investment amounted to USD 331.41 million or PhP 15.60 billion.

As of December 31, 2015, the Parent Bank’s total outstanding investment in MRTC shares amounted to USD 143.162 million or PhP 6.74 billion and the amount received for the continuous remittance of dividend amounted to USD 1.707 million or PhP 80.37 million.

Miscellaneous liability – lawsuits

The Group recognized provisions for lawsuits with court decisions that are final and executory and those with probability that the Parent Bank will be finally held liable for the claim of the plaintiff within one or two years from reporting date.

Cash letters of credit

This refers to import letters of credit issued by the Parent Bank wherein the importer client pays 100 per cent in Philippine pesos. It is a transaction where the importer client pays the draft amount or shipment on the spot upon LC opening or LC issuance by the Parent Bank, based on the exchange rate fixed upon opening of the LC until negotiation or expiry date.

The fixed exchange rate to be used at the time of LC opening/issuance is negotiated and agreed both by the respective Marketing / Branch Unit’s Head / representative/s and the Treasury Department’s duly authorized trader / officer and evidenced by the duly signed and approved Spot Deal Slip.

As of December 31, 2015, the bulk pertains to Letters of Credit issued by the Parent Bank for the Department of National Defense.

Other miscellaneous liabilities

Other miscellaneous liabilities include mainly special funds, GSIS / Medicare / Employee Compensation Premium / Pag-ibig, stale manager’s checks / demand drafts, domestic bills for clearing and COA disallowance.

NOTE 26 – CAPITAL STOCK

Capital stock consists of the following:

	Parent	
	2015	2014
Common shares, P100 par value		
Authorized, 350,000,000 shares		
Issued and outstanding,		
Number of shares	<u>125,000,000</u>	<u>125,000,000</u>
Amount (In thousands pesos)	<u>P12,500,000</u>	<u>P12,500,000</u>

NOTE 27 – RETAINED EARNINGS RESERVES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014	2015	2014
Reserve for trust business	121,737	121,445	121,737	121,445
Reserve for contingencies	35,199	35,199	35,199	35,199
Other surplus reserves				
Loans – Japan Exim Special Facility	4,937	4,937	4,937	4,937
Fund – Japan Training & Technical Assistance	66,027	66,027	66,027	66,027
Expense – Japan Exim Special Facility	46	46	46	46
Appropriated General Reserves Fund for the proposed increase in capitalization - DBP MC	20,000	20,000	0	0
	<u>91,010</u>	<u>91,010</u>	<u>71,010</u>	<u>71,010</u>
	<u>247,946</u>	<u>247,654</u>	<u>227,946</u>	<u>227,654</u>

In accordance with BSP regulations, reserves for trust business represents accumulated appropriation of surplus computed based on 10 per cent of the yearly net income realized by the Parent Bank from its trust operations.

Reserves for contingencies includes P35.2 million set aside for possible losses on defalcation by and other unlawful acts of the Parent Bank’s personnel or third parties.

Other surplus reserves:

The Loans – Japan Eximbank Special Facility (JESF) fund is used for relending to private enterprises utilizing proceeds for the EXIM-Asean Japan Development Fund and trade and industry associations for eligible projects. The Expense – JESF refers to the administrative fee of ¾% that is used to pay for all the expenses related to the implementation of the project.

Japan Training & Technical Assistance is used to fund for the training and technical assistance component under the Overseas Economic Cooperation Fund.

The appropriated general reserves fund is set aside by the Parent Bank’s subsidiary, DBP MC, for the proposed increase in capitalization as required for its foreign subsidiary and other activities.

NOTE 28 – ACCUMULATED OTHER COMPREHENSIVE INCOME

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Coupon payment of Hybrid Tier 1				
At January 1	(3,978,111)	(3,496,557)	(3,978,111)	(3,496,557)
Coupon payment of HT 1 for the year	(495,300)	(481,554)	(495,300)	(481,554)
At December 31	(4,473,411)	(3,978,111)	(4,473,411)	(3,978,111)
Revaluation of Hybrid Tier 1				
At January 1	(790,813)	(833,063)	(790,813)	(833,063)
Revaluation of HT 1 for the year	790,813	42,250	790,813	42,250
At December 31	0	(790,813)	0	(790,813)
Transaction costs of Hybrid Tier 1				
At January 1	79,427	79,427	79,427	79,427
Transaction costs of HT 1 for the year	(79,427)	0	(79,427)	0
At December 31	0	79,427	0	79,427
Net unrealized gain/(loss) on securities				
At January 1	(719,065)	(1,687,312)	(718,925)	(1,690,686)
Net unrealized gain/(loss) on securities for the year	(780,674)	968,247	(780,676)	971,761
At December 31	(1,499,739)	(719,065)	(1,499,601)	(718,925)
Revaluation increment				
At January 1	(5,238)	(5,238)	0	0
Revaluation increment for the year	0	0	0	0
At December 31	(5,238)	(5,238)	0	0
Translation adjustments				
At January 1	(1,428)	(1,465)	0	0
Currency translation difference for the year	1,427	37	0	0
At December 31	(1)	(1,428)	0	0
	(5,978,389)	(5,415,228)	(5,973,012)	(5,408,422)

NOTE 29 – MISCELLANEOUS INCOME

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Rental / lease income	96,067	70,230	24,427	20,832
Gain from sale / derecognition of non-financial assets	198,931	373,323	198,931	373,323
Recovery on charged-off assets	51,308	208,065	51,308	208,066
Additional interest and penalty charges (AIPC)	22,697	16,679	22,697	16,679
Share in net income – equity investment	27,310	51,626	0	0
Income from Trust	2,921	(4,311)	2,921	(4,311)
Interest income – SCR	987	2,969	987	2,969
Income from assets sold/exchanged	25,449	20,104	0	0
Income from assets acquired	483	439	0	0
Miscellaneous income	178,220	31,317	183,477	23,519
	604,373	770,441	484,748	641,077

NOTE 30 – OTHER OPERATING EXPENSES

This account consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Insurance	734,876	634,691	728,864	625,900
Depreciation and amortization	351,694	364,237	337,792	338,093
Security, clerical, messengerial and janitorial	238,776	229,435	229,941	222,605
Utilities	229,989	211,213	224,472	205,559
Management and other professional fees	132,078	132,012	129,520	127,872
Fees and commissions / Supervision	253,553	202,828	253,159	202,374
Information technology	183,642	193,350	183,441	193,209
Repairs and maintenance	68,981	81,757	64,554	78,050
Representation and entertainment	11,232	10,465	10,447	10,027
Fuel and lubricants / Traveling	75,039	69,470	72,835	67,340
Stationery and supplies	64,111	58,607	62,562	57,226
Miscellaneous expense	255,702	222,833	358,729	304,569
	2,599,673	2,410,898	2,656,316	2,432,824

NOTE 31 – INCOME AND OTHER TAXES

Under Philippine tax laws, the Group 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 gross receipts tax or GRT and documentary stamp taxes.

Income taxes include corporate income tax and final taxes paid at the rate of 20 percent which is a final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as Provision for income tax in the statements of profit or loss.

Republic Act No. 9337, An Act Amending National Internal Revenue Code, provides Regular Corporate Income Tax (RCIT) at 35 percent until December 31, 2008. On January 31, 2009, the RCIT rate was 30 percent and interest expense allowed as deductible expense was reduced by 33 per cent on interest income subject to final tax.

The regulations also provide for minimum corporate income tax (MCIT) of 2 percent on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group’s income tax liability and taxable income respectively, over a three-year period from the year of inception.

Provision for income tax consists of: (In thousand pesos)

	Group		Parent	
	2015	2014 As restated	2015	2014
Current				
Final taxes	1,118,523	1,160,014	1,117,362	1,159,928
RCIT	3,128	1,287	0	0
MCIT	46,482	38,171	46,482	38,171
	1,168,133	1,199,472	1,163,844	1,198,099
Deferred	183,831	(125,353)	184,055	(125,353)
	1,351,964	1,074,119	1,347,899	1,072,746

A reconciliation between the provision for corporate income tax at statutory tax rate and the actual provision for corporate income tax as of December 31 of the Parent Bank is as follows: (In thousand pesos except for rates)

	2014		2013	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	1,817,520	30.00	1,701,966	30.00
Effect on items not subject to statutory tax rate:				
Income subjected to lower tax rates	(1,105,901)	(18.25)	(1,237,259)	(21.81)
Tax-exempt income	(841,180)	(13.89)	(742,272)	(13.08)
Non-deductible expenses	77,618	1.28	173,337	3.05
Others	1,399,842	23.11	1,176,974	20.75
Tax expense/(benefits)	1,347,899	22.25	1,072,746	18.91

The details of the Parent Bank’s NOLCO and MCIT are as follows: (In thousand pesos)

Inception Year	Amount	Used/Expired	Balance	Expiry Year
NOLCO				
2012	949,191	949,191	0	2015
2013	1,527,947	0	1,527,947	2016
2014	429,184	0	429,184	2017
2015	421,315	0	421,315	2018
	3,327,637	949,191	2,378,446	
MCIT				
2012	11,953	11,953	0	2015
2013	1,418	0	1,418	2016
2014	38,171	0	38,171	2017
2015	46,482	0	46,482	2018
	98,024	11,953	86,071	

NOTE 32 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Parent Bank has loan, deposits and other transactions with its related parties and with certain directors, officers and related interests (DOSRI).

Under existing policies of the Parent Bank, these loans are made substantially on the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a Parent Bank to a single borrower to 25 per cent of capital funds. The amount of individual loans to DOSRI, of which 70 per cent must be secured, should not exceed the amount of the deposit and book value of their investment in the Parent Bank. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15 per cent of the total loan portfolio of the Parent Bank, whichever is lower.

The following additional information relates to the DOSRI loans of the Parent Bank: (in thousand pesos)

	2015	2014
Total DOSRI loans	45,313,786	44,137,065
Unsecured DOSRI loans	156,965	183,999
Per cent of DOSRI loans to total loan portfolio	18.98	21.58
Per cent of Unsecured DOSRI loans to total DOSRI loans	0.35	0.42
Per cent of past due DOSRI loans to total DOSRI loans	0	0
Per cent of non-performing DOSRI loans to total DOSRI loans	0	0

The remuneration of directors and members of key management are estimated as follows: (In millions)

	Group		Parent	
	2015	2014	2015	2014
a) Short-term employee benefits	164.96	138.20	159.18	133.54
b) Post employment benefits	61.93	62.41	61.93	62.41
	226.89	200.61	221.11	195.95

NOTE 33 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of the Group's operations, there are various lawsuits filed against the Group, outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, forward exchange contracts, interest rate swaps and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The Parent Bank's aggregate contingent liabilities are as follows: (In thousand pesos)

	2014	2013
Loan Commitments	26,843,514	16,342,393
Credit Lines Available	23,621,961	20,945,741
Unused commercial letters of credit	9,119,618	13,934,653
Other Derivatives – Swap/Cross Currency/ Outright Forward Bought/Sold	9,920,928	10,048,076
Outstanding guarantees issued	3,416	92,781
Spot exchange bought/sold	0	380,120
Inward bills for collection	106,078	112,583
Outward bills for collection	645	98
Others	193,352	121,080
	69,809,512	61,977,525

NOTE 34 – TRUST FUNDS

The Parent Bank is authorized under its charter to perform trust and fiduciary activities thru the Trust Banking Group. Trust Funds are managed, accounted and reported individually in accordance with regulatory policies and agreements with Trustors. Trust assets as of December 31, 2015 of P46.77 billion registered 24 per cent increase from the P37.77 billion portfolio reported same period last year. These are off-books transactions and therefore not included in the Parent Bank's financial statements.

Gross income for the year ended December 31, 2015 reached P86.64 million, while operating expenses and gross receipts tax aggregated P83.72 million. Trust operations for the year resulted in a net income of P2.92 million, which is included in the Parent Bank's financial statements.

NOTE 35 – FOREIGN CURRENCY DEPOSIT UNIT

The Parent Bank has been authorized by BSP to operate an Expanded Foreign Currency Deposit Unit (EFCDU) since August 1995.

Income derived under the expanded foreign currency deposit system is exempted from all taxes. Covered under this are foreign currency transactions with non-residents, offshore banking units in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit units and other depository banks under the expanded foreign currency deposit system.

Interest income from foreign currency loans granted to residents is subject to a final tax of ten percent (10%), pursuant to Republic Act No. 9294 (approved by President Gloria M. Arroyo on April 28, 2004).

NOTE 36 – OTHER INFORMATION

The following are the key financial indicators:

	Group		Parent	
	2015	2014	2015	2014
Return on average equity	11.72 %	10.91 %	11.67 %	11.01 %
Return on average assets	0.97 %	1.02 %	0.97 %	1.03 %
Net interest margin	2.12 %	2.35 %	2.11 %	2.34 %
Capital to risk assets ratio	17.04 %	21.25 %	16.65 %	20.91 %

NOTE 37 – SUPPLEMENTARY INFORMATION REQUIRED BY BIR REVENUE REGULATION (RR) NOS. 15-2010 AND 19-2011

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No.21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements as of December 31, 2015.

- a) The Parent Bank is a non-VAT registered corporation engaged in specialized government banking and paid the amount of P 602 million as percentage tax pursuant to RA 9238 law/regulations and based on the amount reflected in the Sales/Gross Income Received account of P 21.498 billion.
- b) Documentary stamp tax (DST) purchased/utilized: (In thousand pesos)

Transaction	Tax Due		
Loan Instruments			20,654
Deposits and other cash transactions			859,043
Others			1,264
			880,961
Withholding taxes paid/accrued: (In thousand pesos)			
	Paid	Accrued	Total
Tax on compensation and benefits	392,086	22,053	414,139
Creditable withholding taxes	103,549	18,605	122,154
Final withholding taxes	449,932	53,465	503,397
	945,567	94,123	1,039,690

- c) Local and national taxes paid/accrued: (In thousand pesos)

	Paid	Accrued	Total
Gross receipts tax			
National	319,916	74,243	393,439
Local	23,957	626	24,583
Total	343,153	74,869	418,022
Expanded withholding tax	0	0	0
Real property tax	16,952	0	16,952
Municipal tax	7,607	0	7,607
Others	6,596	1,369	7,965
	374,308	76,238	450,546

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011.

Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2015, the Parent Bank reported the following revenues and expenses for income tax purposes (In thousand pesos):

Revenues	
Services/operations	5,653,798
Non-operating and taxable other income:	
Gain/(loss) from sale/derecognition of non-financial assets	198,931
Recovery from charged-off assets	51,308
	250,239
	5,904,037
Expenses	
Cost of services:	
Compensation and fringe benefits	1,312,486
Others	2,269,095
	3,581,581
Itemized deductions:	
Compensation and fringe benefits	1,261,016
Taxes and licenses	413,502
Depreciation/amortization	104,807
Securities, messengerial and janitorial services	94,441
Communication, light and water	92,195
Information Technology	79,602
Bad debts	141,266
Rentals	40,860
Repairs and Maintenance	26,513
Traveling/Fuel Lubricants	29,915
Stationery and Supplies	25,696
Others	433,958
	2,743,771
	6,325,352
Net taxable income/(loss)	(421,315)

NOTE 38 - RECLASSIFICATION/REVERSAL

The Parent Bank's subsidiaries namely Al-Amanah Islamic Investment Bank of the Philippines, Data Center Incorporated and DBP Management Corporation effected adjustments to restate their financial statements for CY 2014. The said restatements did not have any material impact on the Group's financial statements.

NOTE 39 - EVENTS AFTER THE REPORTING DATE

- a) On January 27, 2016, the Board approved the declaration of cash dividend to the National Government (NG) of P2.341 billion covering CY 2015 net earnings per Board Resolution No. 0039, which was paid on March 8, 2016
- b) On February 4, 2016, the President of the Republic of the Philippines, His Excellency President Benigno Simeon C. Aquino III, signed Executive Order Number 198, approving the merger of the Parent Bank, the Development Bank of the Philippines (DBP) and the Landbank of the Philippines (LBP)
- c) On March 02, 2016, the National Government granted an additional P 5 billion capital infusion to the Parent Bank



Head Office:

Sen. Gil Puyat Avenue corner Makati Avenue
Makati City, Philippines

Mailing Address:

P.O. Box 1996, Makati Central Post Office 1200

Trunkline: (632) 818-9511 to 20, 818-9611 to 20

Fax: (632) 893-4311 **Email:** info@dbp.ph

Website: www.devbnkphl.com