2015 Annual Report
Financial Supplements

Table of Contents

CORPORATE MISSION 4

FINANCIAL HIGHLIGHTS 6

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS 11

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS 14

REPORT OF INDEPENDENT AUDITORS 15

STATEMENTS OF FINANCIAL POSITION 16

STATEMENTS OF INCOME 17

STATEMENTS OF COMPREHENSIVE INCOME 18

STATEMENTS OF CHANGES IN EQUITY 19

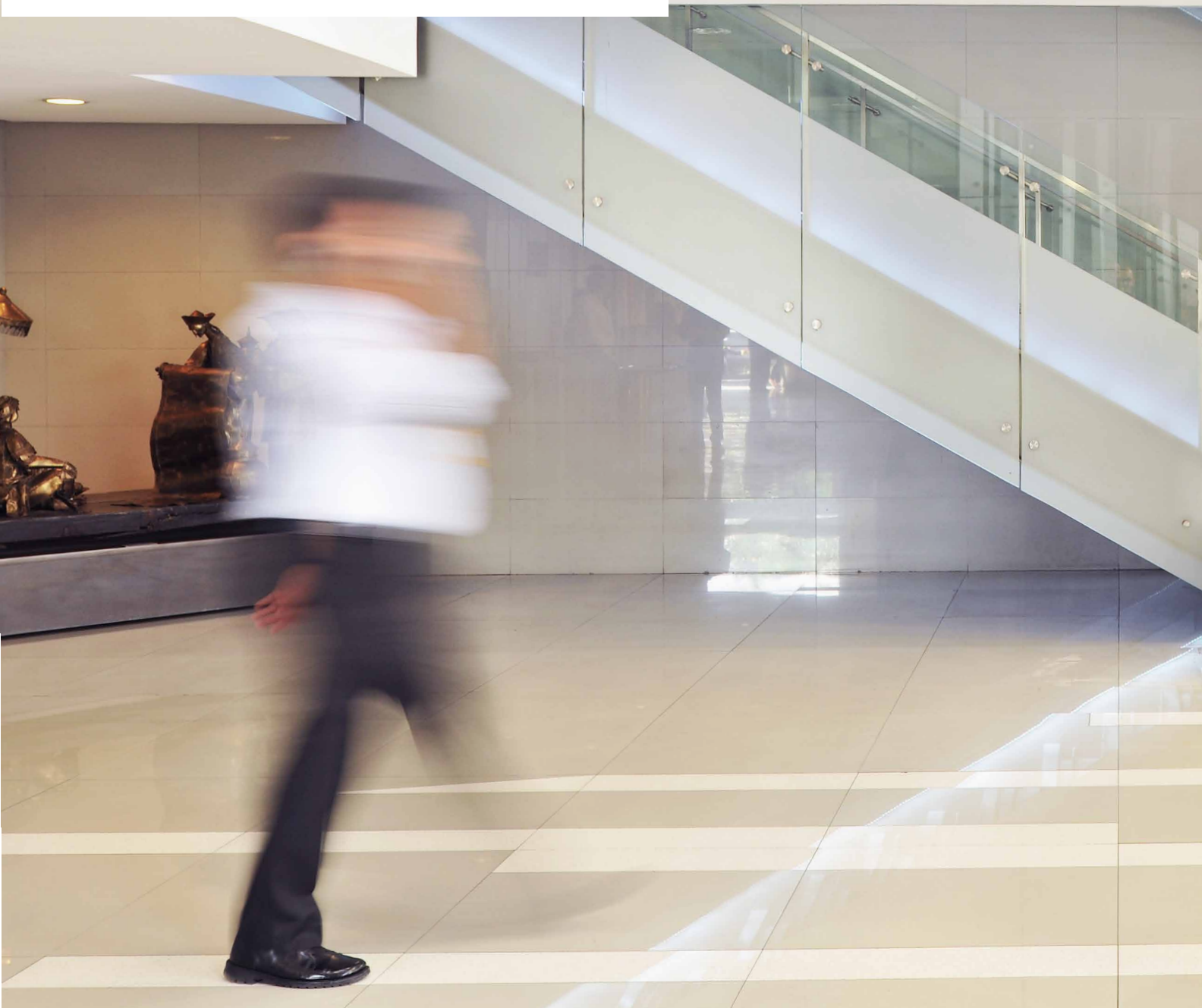
STATEMENTS OF CASH FLOWS 21

NOTES TO FINANCIAL STATEMENTS 23

SUPPLEMENTARY MANAGEMENT DISCUSSION 186

Corporate Mission

To be the preferred bank in every market we serve by consistently providing innovative products and flawless delivery of services, proactively reinventing ourselves to meet market demands, creating shareholder value through superior returns, cultivating in our people a sense of pride and ownership, and striving to be always better than what we are today… tomorrow.



Corporate Profile

BDO Unibank, Inc. is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including Lending (corporate and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management and Remittances in the Philippines. Through its local subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Rural Banking, Bancassurance, Insurance Brokerage and Stock Brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. Its branches remain at the forefront of setting high standards as a sales- and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with more than 1,000 operating branches and over 3,000 ATMs nationwide (including One Network Bank).

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of 31 December 2015, BDO is the country's largest bank in terms of resources, customer loans, deposits, and assets under management.

BDO is a member of the SM Group, one of the country's largest and most successful conglomerates with businesses spanning retail, mall operations, property development (residential, commercial, resorts/hotels), and financial services. Although part of a conglomerate, BDO's day-to-day operations are handled by a team of professional managers and bank officers. Further, the Bank has one of the industry's strongest Board of Directors composed of professionals with extensive experience in various fields that include banking, accounting, finance, law, bank regulations and risk management, strategy formulation and merchandise marketing.

BDO is a publicly listed company (PLC).

CORE VALUES

COMMITMENT TO CUSTOMERS

We are committed to delivering products and services that surpass customer expectations in value and in every aspect of customer service, while remaining to be prudent and trustworthy stewards of their wealth.

COMMITMENT TO A DYNAMIC AND EFFICIENT ORGANIZATION

We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity. We are committed to the process of continuous improvement in everything we do.

COMMITMENT TO EMPLOYEES

We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.

COMMITMENT TO SHAREHOLDERS

We are committed to providing our shareholders with superior returns over the long term.

The Board of Directors reviewed and noted the Corporate Mission and Vision at its meeting on September 19, 2015.

Financial Highlights

Financial & Operating Highlights	*2015*	*2014*	*Change*
BALANCE SHEET (in billion PhP)			
Resources	2,031.3	1,863.6	9.0%
Gross Customer Loans	1,279.4	1,089.4	17.4%
Trading and Investment Securities	225.8	221.5	1.9%
Deposits	1,663.9	1,492.3	11.5%
Equity[1/]	199.6	179.7	11.1%
INCOME STATEMENT (in billion PhP)			
Net Interest Income	57.0	51.2	11.2%
Non-Interest Income	31.9	29.5	8.3%
Gross Operating Income	88.9	80.7	10.1%
Operating Expenses	55.1	48.5	13.6%
Net Profit[2/]	25.0	22.8	9.7%
FINANCIAL PERFORMANCE INDICATORS			
Profitability			
Return on Average Equity	13.4%	13.4%	
Return on Average Common Equity	13.6%	13.6%	
Return on Average Assets	1.3%	1.3%	
Margins and Liquidity			
Net Interest Margin	3.2%	3.2%	
Gross Customer Loans to Deposit Ratio	76.9%	73.0%	
Liquid Assets to Total Assets	33.8%	38.1%	
Cost Efficiency			
Cost to Income Ratio	62.0%	60.1%	
Cost to Average Assets Ratio	2.8%	2.7%	
Asset Quality			
NPL to Gross Customer Loans	1.2%	1.3%	
NPL Cover	166.1%	188.4%	
Capital and Leverage			
CET 1 Ratio	11.4%	12.2%	
Tier 1 Ratio	11.7%	12.6%	
Capital Adequacy Ratio	13.3%	14.4%	
Assets to Equity	10.2x	10.4x	
DISTRIBUTION NETWORK AND MANPOWER			
Branches	1,029	876	17.5%
ATMs	3,195	2,591	23.3%
Employees	28,217	24,779	13.9%
SHAREHOLDER INFORMATION			
Market Value			
Share Price (in PhP)	105.00	109.80	-4.4%
Market Capitalization (in billion PhP)	382.76	393.18	-2.6%
Valuation			
Basic Earnings per Share (in PhP)	6.84	6.27	9.1%
Diluted Earnings per Share (in PhP)	6.84	6.27	9.1%
Book Value per Share (in PhP)	53.17	48.56	9.5%
Price-Earnings Ratio	15.4x	17.5x	
Price to Book Value	2.0x	2.3x	
Dividends[3/]			
Cash Dividends Paid (in billion PhP)	7.56	7.52	
Cash Dividends per Common Share (in PhP)	2.10	2.10	
Dividend Payout Ratio[4/]	30.2%	33.0%	
Dividend Yield[5/]	2.0%	2.3%	
Stock Dividends per share	-	-	

1/ Total capital accounts, inclusive of minority interest and preferred shares

2/ Net Income attributable to shareholders of the parent bank

3/ On January 10, 2015, the Bank declared quarterly cash dividends of P0.30 per common share or a total of P1.20 per share. On April 24, 2015, the Bank also declared special cash dividends of P0.90 per share. The cash dividends were subsequently approved by the BSP and have all been paid as of December 31, 2015.

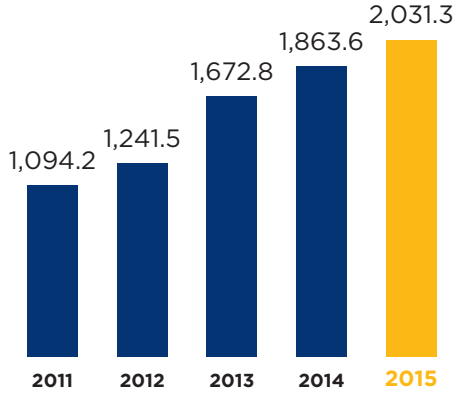
4/ Cash dividends paid during the year divided by net profit for the year

5/ Cash dividends per share paid during the year divided by average daily price for the year

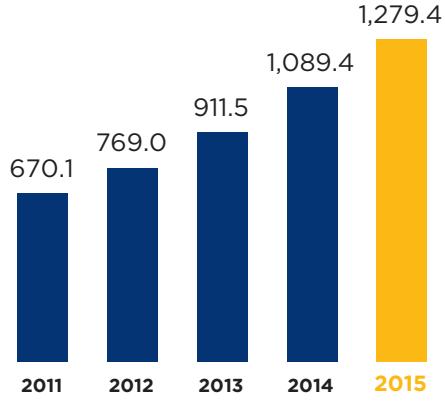
Historical Trends & Figures

2011-2015

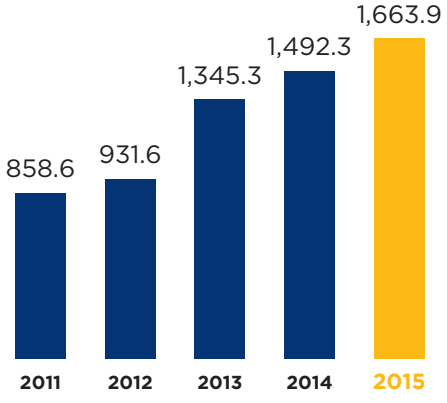
RESOURCES



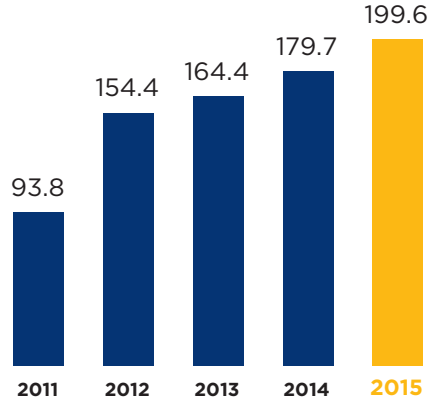
GROSS CUSTOMER LOANS



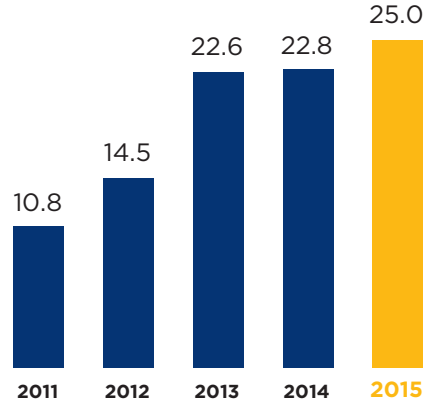
DEPOSIT LIABILITIES



CAPITAL FUNDS



NET INCOME*



(In Billion Pesos)

* attributable to shareholders of the parent bank

Financial Statements

Report of the Audit Committee to the Board of Directors

The Board Audit Committee (BAC) is empowered to assist the Board of Directors in fulfilling its oversight function over the Bank's financial reporting process, system of internal control, overall management of risks and governance processes, Internal and External Audit functions and compliance with applicable rules and regulations.

Composed of four board members (three of whom are independent directors), and assisted by an adviser, the BAC conducted twelve regular meetings in 2015.

For the year 2015, the BAC:

1. On financial reporting process:

    - Extensively reviewed and discussed with Management, Internal Audit and External Audit the annual audited financial statements for the year ended December 31, 2015 including the internal controls on the financial reporting process ensuring compliance with accounting standards and tax regulations before endorsing the same to the Board of Directors.

    - Quarterly unaudited financial statements and results of operations were likewise reviewed and discussed with Management prior to endorsement to the Board of Directors for approval.

2. On its oversight function over Internal Audit

    - Approved the Internal Audit's annual plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget as well as manpower resources to ensure the smooth execution of the plan. It also reviewed and approved the revised Internal Audit Charter and manual which incorporated provisions of BSP Circular 871 – Internal Control and Internal Audit.

    - Reviewed and discussed Internal Audit reports with emphasis on issues and findings relating to operational, financial and compliance controls including risk management systems with impact to financials, reputation and information security. The Committee invited key management officers to discuss high risk issues and their action plans to resolve or mitigate the same. Furthermore, the Committee kept track of updates on Information Technology's action plans in further strengthening IT risk management.

    - The BAC also assessed the performance of the Chief Internal Auditor and key Internal Audit Officers.

3. On its oversight function over External Audit

   - Discussed and reviewed with the External Auditor the content of the engagement letter as well as the audit plan consisting of, among others the scope of work, focus areas and audit approach, engagement team, fraud risk, deliverables and timetable as well as updates on new accounting standards and tax regulations prior to commencement of audit work.

   - Discussed comprehensively the external audit reports, with focus on internal controls, risk management, governance and matters with financial impact.

   - Reviewed the management letter as well as Management's response to the external auditor's findings

   - Assessed the performance of Punongbayan & Araullo as the Bank's External Auditor.

4. On its oversight over the Compliance function:

   - Reviewed and approved the annual plans, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering (AML) Units.

   - Reviewed the results and monitored the progress of the Independent Compliance and AML Testing.

   - Consistently monitored the timely submission of regulatory requirements and compliance to mandatory ratios.

   - Discussed in detail the BSP Report of Examination (ROE) as of September 2014 and reviewed Management's reply to the findings, observations and recommendations making sure that committed actions are implemented.

Reports on cases in operations as well as non-loan related cases with significant amounts which may impact financials, information systems and reputation were discussed and reviewed. Highlighted in these discussions were the risk assessment, legal handling and root cause analyses, aimed at determining the control weaknesses as well as providing solutions thereto.

The BAC members attended the AML Training on "Mitigating Risk on Current Trends in Money Laundering" conducted by the Anti-Money Laundering Council Secretariat on November 25, 2015. Members of the Committee were likewise regularly apprised on new regulations related to money laundering, tax compliance, accounting standards, as well as the US Foreign Account Tax Compliance Act or FATCA.

The Audit Committee conducted its yearly self-assessment, which enabled the Committee to gauge its own performance in the year 2015 in relation to its Terms of Reference. The BAC also

evaluated the performance of the Internal Audit, the Compliance and Anti-Money Laundering Units and External Audit.

Through its tracking mechanism, the Committee constantly reviewed and monitored Management's corrective action on internal control weaknesses, compliance issues and major risk areas cited by BSP, Internal Audit, External Audit, Compliance and AML Units and other regulatory bodies.

The Committee reviewed and updated its Terms of Reference to incorporate the stipulations from BSP Circular 871 – Internal Control and Internal Audit.

The Board Audit Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Bank based on information obtained from the External Auditor, the reasonable assurance provided by the Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDO.

CHAIRMAN

Jose F. Buenaventura
Independent Director

MEMBERS:

Jones M. Castro, Jr.
Independent Director

Jimmy T. Tang
Independent Director

Jesus A. Jacinto, Jr.
Vice-Chairman

Statement of Management's Responsibility for Consolidated Financial Statements

The management of **BDO Unibank, Inc. (the Bank)** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2015, 2014 and 2013 in accordance with Philippine Financial Reporting Standards, including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules required under Annex 68-E of the Securities Regulation Code Rule 68;
b. Reconciliation of Retained Earnings Available for Dividend Declaration;
c. Schedule of Philippine Financial Reporting Standards and Interpretations adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2015; and,
d. Map Showing the Relationship Between and Among the Bank and its Related Entities.

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews the consolidated statements, and the additional supplemental information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Teresita T. Sy
Chairman of the Board

Nestor V. Tan
President

Pedro M. Florescio III
Treasurer

Signed this 27th day of February 2016.

Report of Independent Auditors

The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the accompanying financial statements of BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as the BDO Unibank Group) and BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

EMPHASIS OF A MATTER

As discussed in Note 27 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2015 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under Philippine Securities and Exchange Commission rules and regulations covering form and content of financial statements under Securities Regulation Code 68.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 5321731, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 27, 2016

Statements of Financial Position

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group		Parent Bank	
	Notes	**2015**	2014	**2015**	2014
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 42,729**	P 41,342	**P 41,767**	P 41,237
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**271,808**	269,542	**260,841**	258,416
DUE FROM OTHER BANKS	8	**24,837**	45,621	**20,944**	43,165
TRADING AND INVESTMENT SECURITIES	9	**225,759**	221,510	**196,500**	195,449
LOANS AND OTHER RECEIVABLES - Net	10	**1,382,752**	1,212,930	**1,323,311**	1,182,184
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**24,995**	21,093	**21,152**	18,917
INVESTMENT PROPERTIES - Net	12	**14,633**	13,861	**11,403**	10,858
OTHER RESOURCES - Net	13	**43,741**	37,750	**54,085**	42,847
TOTAL RESOURCES		**P 2,031,254**	P 1,863,649	**P 1,930,003**	P 1,793,073
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 1,663,853**	P 1,492,282	**P 1,603,047**	P 1,464,089
BILLS PAYABLE	16	**97,543**	100,361	**76,867**	85,069
SUBORDINATED NOTES PAYABLE	17	**10,030**	10,030	**10,030**	10,030
OTHER LIABILITIES	18	**60,215**	81,307	**49,370**	65,358
Total Liabilities		**1,831,641**	1,683,980	**1,739,314**	1,624,546
EQUITY	19				
Attributable to:					
Shareholders of the Parent Bank		**198,990**	179,036	**190,689**	168,527
Non-controlling Interests		**623**	633	**-**	-
		199,613	179,669	**190,689**	168,527
TOTAL LIABILITIES AND EQUITY		**P 2,031,254**	P 1,863,649	**P 1,930,003**	P 1,793,073

See Notes to Financial Statements.

Statements of Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos Except Per Share Data)

		BDO Unibank Group			Parent Bank		
	Notes	**2015**	2014	2013	**2015**	2014	2013
INTEREST INCOME	20	**P 72,127**	P 63,583	P 56,606	**P 68,519**	P 60,871	P 54,431
INTEREST EXPENSE	21	**15,166**	12,358	13,440	**14,238**	11,728	13,014
NET INTEREST INCOME		**56,961**	51,225	43,166	**54,281**	49,143	41,417
IMPAIRMENT LOSSES - Net	13, 14	**3,000**	5,114	7,001	**2,709**	5,014	6,216
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**53,961**	46,111	36,165	**51,572**	44,129	35,201
OTHER OPERATING INCOME	22	**31,939**	29,487	31,844	**30,170**	27,026	27,080
OTHER OPERATING EXPENSES	22	**55,144**	48,530	43,259	**50,394**	44,836	40,364
PROFIT BEFORE TAX		**30,756**	27,068	24,750	**31,348**	26,319	21,917
TAX EXPENSE	27	**5,701**	4,240	2,104	**4,829**	3,522	1,418
NET PROFIT		**P 25,055**	P 22,828	P 22,646	**P 26,519**	P 22,797	P 20,499
Attributable to:							
Shareholders of the Parent Bank		**P 25,016**	P 22,805	P 22,608			
Non-controlling Interests		**39**	23	38			
		P 25,055	P 22,828	P 22,646			
Earnings Per Share:	28						
Basic		**P 6.84**	P 6.27	P 6.22	**P 7.25**	P 6.27	P 5.63
Diluted		**P 6.84**	P 6.27	P 6.18	**P 7.25**	P 6.27	P 5.61

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2015**	2014	2013	**2015**	2014	2013
NET PROFIT		**P 25,055**	P 22,828	P 22,646	**P 26,519**	P 22,797	P 20,499
OTHER COMPREHENSIVE INCOME							
Items that are or will be reclassified subsequently to profit or loss:							
Unrealized losses on available-for-sale (AFS) securities, net of tax	9	**(2,457)**	(2,440)	(12,410)	**(1,498)**	(2,846)	(12,334)
Transfer of realized gains (losses) on AFS securities to statements of income, net of tax		**(1,219)**	2,801	7,378	**(1,437)**	2,796	7,388
Net gains (losses) on AFS securities, net of tax		**(3,676)**	361	(5,032)	**(2,935)**	(50)	(4,946)
Translation adjustment related to foreign operations		**19**	76	281	**8**	(6)	357
		(3,657)	437	(4,751)	**(2,927)**	(56)	(4,589)
Items that will not be reclassified to profit or loss:							
Actuarial gains (losses) on remeasurement of retirement benefit asset, net of tax	23	**(154)**	(47)	74	**(186)**	(63)	46
Reversal of revaluation increment		**(19)**	-	(89)	**(19)**	-	(89)
		(173)	(47)	(15)	**(205)**	(63)	(43)
Total Other Comprehensive Income (Loss), net of tax		**(3,830)**	390	(4,766)	**(3,132)**	(119)	(4,632)
TOTAL COMPREHENSIVE INCOME		**P 21,225**	P 23,218	P 17,880	**P 23,387**	P 22,678	P 15,867
Attributable to:							
Shareholders of the Parent Bank		**P 21,179**	P 23,184	P 17,845			
Non-controlling Interests		**46**	34	35			
		P 21,225	P 23,218	P 17,880			

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group												
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Accumulated Translation Adjustment	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2015		P 35,808	P 5,150	P 63,908	P 3,454	P 12	P 70,242	P 2,965	(P 3,454)	P 1,027	(P 76)	P 179,036	P 633	P 179,669
Transactions with owners	19, 26													
Issuance of shares during the year		645	-	6,028	-	-	-	-	-	-	-	6,673	14	6,687
Redemption of preferred stocks		-	-	-	-	-	-	-	-	-	-	-	(27)	(27)
Cash dividends		-	-	-	-	-	(7,898)	-	-	-	-	(7,898)	(43)	(7,941)
		645	-	6,028	-	-	(7,898)	-	-	-	-	(1,225)	(56)	(1,281)
Total comprehensive income (loss)		-	-	-	-	-	25,016	(3,680)	(154)	(19)	16	21,179	46	21,225
Transfer to (from) Surplus Free														
Appropriations during the year	19	-	-	-	27	-	(27)	-	-	-	-	-	-	-
Reversal of appropriation during the year	19	-	-	-	(1,000)	-	1,000	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	215	-	(215)	-	-	-	-	-	-	-
		-	-	-	(758)	-	758	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015		**P 36,453**	**P 5,150**	**P 69,936**	**P 2,696**	**P 12**	**P 88,118**	**(P 715)**	**(P 3,608)**	**P 1,008**	**(P 60)**	**P 198,990**	**P 623**	**P 199,613**
BALANCE AT JANUARY 1, 2014		P 35,808	P 5,150	P 63,908	P 2,994	P 12	P 55,756	P 2,609	(P 3,407)	P 1,027	(P 146)	P 163,711	P 643	P 164,354
Transaction with owners														
Cash dividends	19	-	-	-	-	-	(7,859)	-	-	-	-	(7,859)	(44)	(7,903)
Total comprehensive income (loss)		-	-	-	-	-	22,805	356	(47)	-	70	23,184	34	23,218
Transfer from Surplus Free														
Appropriations during the year	19	-	-	-	268	-	(268)	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	192	-	(192)	-	-	-	-	-	-	-
		-	-	-	460	-	(460)	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		P 35,808	P 5,150	P 63,908	P 3,454	P 12	P 70,242	P 2,965	(P 3,454)	P 1,027	(P 76)	P 179,036	P 633	P 179,669
BALANCE AT JANUARY 1, 2013		P 35,808	P 5,150	P 63,908	P 2,254	P -	P 41,748	P 7,641	(P 3,484)	P 1,116	(P 427)	P 153,714	P 657	P 154,371
Transaction with owners														
Cash dividends	19	-	-	-	-	-	(7,860)	-	-	-	-	(7,860)	(44)	(7,904)
Total comprehensive income (loss)		-	-	-	-	-	22,608	(5,032)	77	(89)	281	17,845	35	17,880
Transfer from Surplus Free														
Appropriation during the year	19	-	-	-	550		(550)	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	190	-	(190)	-	-	-	-	-	-	-
		-	-	-	740	-	(740)	-	-	-	-	-	-	-
Other Adjustments														
Increase of ownership interest in a subsidiary		-	-	-	-	12	-	-	-	-	-	12	(47)	(35)
Consolidation of new subsidiary		-	-	-	-	-	-	-	-	-	-	-	42	42
		-	-	-	-	12	-	-	-	-	-	12	(5)	7
BALANCE AT DECEMBER 31, 2013		P 35,808	P 5,150	P 63,908	P 2,994	P 12	P 55,756	P 2,609	(P 3,407)	P 1,027	(P 146)	P 163,711	P 643	P 164,354

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		Parent Bank									
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Accumulated Translation Adjustment	Total Equity
BALANCE AT JANUARY 1, 2015		P 35,808	P 5,150	P 63,889	P 1,832	P 61,716	P 2,411	(P 3,305)	P 1,024	P 2	P 168,527
Transactions with owners											
Issuance of shares during the year	19, 26	645	-	6,028	-	-	-	-	-	-	6,673
Cash dividends	19	-	-	-	-	(7,898)	-	-	-	-	(7,898)
		645	-	6,028	-	(7,898)	-	-	-	-	(1,225)
Total comprehensive income (loss)		-	-	-	-	26,519	(2,935)	(186)	(19)	8	23,387
Transfer from Surplus Free											
Appropriation during the year	19	-	-	-	25	(25)		-	-	-	-
Trust reserve	19, 25	-	-	-	171	(171)	-	-	-	-	-
		-	-	-	196	(196)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015		**P 36,453**	**P 5,150**	**P 69,917**	**P 2,028**	**P 80,141**	**(P 524)**	**(P 3,491)**	**P 1,005**	**P 10**	**P 190,689**
BALANCE AT JANUARY 1, 2014		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	P 153,708
Transactions with owners											
Cash dividends	19	-	-	-	-	(7,859)	-	-	-	-	(7,859)
Total comprehensive income (loss)		-	-	-	-	22,797	(50)	(63)	-	(6)	22,678
Transfer from Surplus Free											
Appropriation during the year	19	-	-	-	101	(101)	-	-	-	-	-
Trust reserve	19, 25	-	-	-	156	(156)	-	-	-	-	-
		-	-	-	257	(257)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		P 35,808	P 5,150	P 63,889	P 1,832	P 61,716	P 2,411	(P 3,305)	P 1,024	P 2	P 168,527
BALANCE AT JANUARY 1, 2013		P 35,808	P 5,150	P 63,889	P 1,414	P 34,557	P 7,407	(P 3,288)	P 1,113	(P 349)	P 145,701
Transactions with owners											
Cash dividends	19	-	-	-	-	(7,860)	-	-	-	-	(7,860)
Total comprehensive income (loss)		-	-	-	-	20,499	(4,946)	46	(89)	357	15,867
Transfer from Surplus Free											
Trust reserve	19, 25	-	-	-	161	(161)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2013		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	P 153,708

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2015 , 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2015**	2014	2013	**2015**	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 30,756**	P 27,068	P 24,750	**P 31,348**	P 26,319	P 21,917
Adjustments for:							
Interest income	20	**(72,127)**	(63,583)	(56,606)	**(68,519)**	(60,871)	(54,431)
Interest received		**71,124**	62,529	56,737	**67,778**	60,122	54,596
Interest paid		**(15,188)**	(12,496)	(13,777)	**(14,344)**	(11,855)	(13,533)
Interest expense	21	**15,166**	12,358	13,440	**14,238**	11,728	13,014
Depreciation and amortization	11, 12, 13	**3,961**	3,262	2,760	**3,085**	2,640	2,355
Impairment losses	13, 14	**3,000**	5,114	7,001	**2,709**	5,014	6,216
Share in net profit of associates	13	**(837)**	(652)	(606)	**-**	-	-
Fair value loss (gain)	9	**(121)**	(37)	(440)	**(167)**	(65)	17
Income from acquisition of a subsidiary	26	**-**	(18)	(43)	**-**	-	-
Operating profit before changes in operating resources and liabilities		**35,734**	33,545	33,216	**36,128**	33,032	30,151
Decrease (increase) in financial assets at fair value through profit or loss		**(4,714)**	1,076	22	**66**	(1,327)	1,138
Increase in loans and other receivables		**(188,091)**	(216,173)	(160,507)	**(231,297)**	(200,655)	(158,432)
Decrease (increase) in investment properties		**1,072**	(1,377)	(885)	**1,374**	(1,389)	1,597
Increase in other resources		**(6,202)**	(11,000)	(4,958)	**(11,319)**	(7,914)	(5,214)
Increase in deposit liabilities		**171,671**	147,105	413,734	**139,112**	147,110	397,695
Increase (decrease) in other liabilities		**(18,308)**	18,543	12,075	**(13,863)**	9,907	9,557
Cash generated from (used in) operations		**(8,838)**	(28,281)	292,697	**(79,799)**	(21,236)	276,492
Cash paid for income tax		**(4,090)**	(4,160)	(2,168)	**(3,211)**	(3,589)	(1,204)
Net Cash From (Used in) Operating Activities		**(12,928)**	(32,441)	290,529	**(83,010)**	(24,825)	275,288
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of available-for-sale securities	9	**(455,074)**	(377,961)	(606,540)	**(437,205)**	(360,013)	(589,025)
Proceeds from disposals of available-for-sale securities		**451,700**	383,247	612,048	**493,842**	373,079	594,111
Acquisitions of premises, furniture, fixtures and equipment	11	**(6,963)**	(5,970)	(4,321)	**(4,439)**	(4,712)	(3,143)
Proceeds from disposals of premises, furniture, fixtures and equipment		**126**	194	73	**(211)**	87	62
Acquisitions of held-to-maturity investments	9	**-**	-	(3,586)	**-**	-	(3,586)
Maturities and disposals of held-to-maturity investments		**-**	-	2,899	**-**	-	2,705
Net Cash From (Used in) Investing Activities		**(10,211)**	(490)	573	**51,987**	8,441	1,124
CASH FLOWS FROM FINANCING ACTIVITIES							
Dividends paid	19	**(7,941)**	(7,903)	(7,904)	**(7,898)**	(7,859)	(7,860)
Net proceeds from (payments of) bills payable		**(2,896)**	6,100	21,974	**(8,250)**	2,216	17,639
Proceeds from (redemption of) subordinated notes payable	17	**-**	7,023	(25,000)	**-**	7,023	(25,000)
Net Cash From (Used in) Financing Activities		**(10,837)**	5,220	(10,930)	**(16,148)**	1,380	(15,221)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(33,976)**	(27,711)	280,172	**(47,171)**	(15,004)	261,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**41,342**	27,824	21,539	**41,237**	27,736	21,512
Due from Bangko Sentral ng Pilipinas	7	**269,542**	408,383	156,591	**258,416**	384,361	151,303
Due from other banks	8	**45,621**	26,939	12,645	**43,165**	24,655	11,488
Securities purchased under reverse repurchase agreement	10	**86,173**	8,407	941	**86,173**	8,407	-
Foreign currency notes and coins	13	**3,406**	2,242	1,907	**3,406**	2,242	1,907
		446,084	473,795	193,623	**432,397**	447,401	186,210
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**42,729**	41,342	27,824	**41,767**	41,237	27,736
Due from Bangko Sentral ng Pilipinas	7	**271,808**	269,542	408,383	**260,841**	258,416	384,361
Due from other banks	8	**24,837**	45,621	26,939	**20,944**	43,165	24,655
Securities purchased under reverse repurchase agreement	10	**69,490**	86,173	8,407	**58,431**	86,173	8,407
Foreign currency notes and coins	13	**3,244**	3,406	2,242	**3,243**	3,406	2,242
		P 412,108	P 446,084	P 473,795	**P 385,226**	P 432,397	P 447,401

See Notes to Financial Statements.

SUPPLEMENTAL INFORMATION ON NONCASH FINANCING AND INVESTING ACTIVITIES

The following are the significant noncash transactions:

a. On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of Additional Paid-in Capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totaled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively (see Note 26).

b. On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. executed a Memorandum of Agreement to transfer to the Parent Bank the assets and liabilities of the latter amounting to P2,491 and P7,118, respectively, resulting in the recognition of Branch licenses and Accounts receivable amounting to P2,640 and P2,000, respectively (see Note 26).

c. In 2013, the BDO Unibank Group and the Parent Bank reclassified its Held-to-maturity investments totalling to P95,860 and P88,840, respectively, to available-for-sale securities in anticipation of its planned disposal in accordance with Philippine Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (see Note 9).

d. In 2013, BDO Capital and Investment Corporation (BDO Capital), a subsidiary of BDO Unibank, obtained control over CBN Grupo through its 60% ownership acquired in 2011. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established (see Note 26). As of the date of initial consolidation, total resources and total liabilities of CBN Grupo amounted to P438 and P339, respectively.

e. On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company primarily engaged in the leasing business, amounting to P43. As of the date of the acquisition, total resources and liabilities of Averon Holdings Corporation amounted to P1,484 and P1,397, respectively. Gain from acquisition amounted to P43.

OTHER INFORMATION

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

Notes to Financial Statements

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, insurance brokerage, credit card services, stockbrokerage, trust and others.

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of the General Banking Law of 2000 Republic Act (RA) No. 8791.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2015, BDO Unibank Group had 1,029 branches (including one foreign branch and 17 satellite offices), 1,717 on-site and 1,478 off-site automated teller machines (ATMs) and 191 cash accept machines (CAMs). As of December 31, 2015, the Parent Bank had 922 branches (including one foreign branch), 1,589 on-site and 1,424 off-site ATMs and 191 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. These foreign operations accounted for 1.1%, 1.3% and 0.8% of BDO Unibank Group's total revenues in 2015, 2014 and 2013, respectively, and 1.2% and 1.1% of BDO Unibank Group's total resources as of December 31, 2015 and 2014, respectively. BDO Unibank Group's subsidiaries and associates are shown in Note 13.1.

1.2 Approval of Financial Statements

The financial statements of BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2015 (including the comparative financial statements as of and for the years ended December 31, 2014 and 2013) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 27, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. BDO Unibank Group presents a statement of comprehensive income separate from the statement of income.

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

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values are presented in millions, except per share data or when otherwise indicated (see also Note 2.24).

Items included in the financial statements of BDO Unibank Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which BDO Unibank Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2015 that are Relevant to BDO Unibank Group

In 2015, BDO Unibank Group adopted for the first time the following amendment and annual improvements to PFRS which are mandatorily effective for annual periods on or after July 1, 2014 for the Group's annual reporting period beginning January 1, 2015:

PAS 19 (Amendment): Employee Benefits – Defined Benefit Plans – Employee Contributions

Annual Improvements: Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amended standards and interpretation.

(i) PAS 19 (Amendment), Employee Benefits – Defined Benefit Plans – Employee Contributions.

The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the BDO Unibank Group's financial statements since BDO Unibank Group's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

(ii) Annual Improvements to PFRS.

Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to BDO Unibank Group but had no material impact on the BDO Unibank Group's financial statements as these amendments merely clarify the existing requirements:

Annual Improvements to PFRS (2010-2012 Cycle)

- PFRS 2 (Amendment), *Share-based Payment*. The amendment clarifies the definitions of "vesting condition" and "market condition" and defines a "performance condition" and a "service condition".

- PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, *Financial Instruments – Presentation*. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

- PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *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.

- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

Annual Improvements to PFRS (2011-2013 Cycle)

- PFRS 3 (Amendment), *Business Combinations*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.

- PFRS 13 (Amendment), *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.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of assets in accordance with PAS 40 or a business combination in accordance with PFRS 3.

(b) Effective Subsequent to 2015 but not Adopted Early

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 BDO Unibank Group's financial statements:

(i) PAS 1 (Amendment), 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.

(ii) PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment), 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.

(iii) PAS 27 (Amendment), 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, BDO Unibank Group has no plan to change the accounting policy for its investments in subsidiaries and associates.

(iv) PAS 28 (Amendment), Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception (effective from January 1, 2016).

This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(v) PFRS 10 (Amendment), Consolidated Financial Statements and PAS 28 (Amendment), Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely).

The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e., from January 1, 2016) indefinitely.

(vi) PFRS 10 (Amendment), Consolidated Financial Statements - Investment Entities: Applying the consolidation exception (effective from January 1, 2016).

This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(vii) PFRS 11 (Amendment), Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (effective from January 1, 2016).

This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(viii) 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; and,

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

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

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

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

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

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

(ix) Annual improvements to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016.

Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect those to have material impact on the BDO Unibank Group's financial statements:

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

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

- PFRS 7 (Amendment), *Financial Instruments – Applicability of amendments to PFRS 7 to condensed interim financial statements*. This amendment clarifies that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

- PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Basis of Consolidation

The Parent Bank obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including

income, expenses and dividends, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in resources are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Bank, using consistent accounting principles.

The Parent Bank accounts for its investments in subsidiaries and transactions with non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Parent Bank has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Bank controls another entity. The Parent Bank obtains and exercises control when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity, usually through voting rights. Subsidiaries are consolidated from the date the Parent Bank obtains control.

The Parent Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Except as otherwise indicated, the acquisition of subsidiaries is accounted for using the acquisition method (see Note 2.12). Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BDO Unibank Group, if any.

The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, BDO Unibank Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss (see Note 2.12).

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are accounted for in the Parent Bank's financial statements at cost less impairment losses, if any.

(b) Transactions with Non-controlling Interests

BDO Unibank Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of BDO Unibank Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recognized in equity. Disposals of equity investments to non-controlling interests, which result in gains or losses for BDO Unibank Group are also recognized in equity.

When BDO Unibank Group ceases to have control, any interest retained in the subsidiary is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The initial carrying amount for the purposes of subsequently accounting for the interest retained as an associate, joint venture or financial asset is the fair value. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if BDO Unibank Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

In BDO Unibank Group's financial statements, the non-controlling interest component is shown in its statement of changes in equity, and in its statement of income and statement of comprehensive income for the share of profit or loss and movement of other comprehensive income, respectively, during the year.

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2015	2014	2013
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	**98.82%**	98.82%	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	**99.99%**	99.99%	-
Rural Bank			
One Network Bank, Inc. (A Rural Bank) (ONB)	**99.63%**	-	-
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**100%**	100%	100%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**100%**	100%	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**100%**	100%	100%
PCIB Securities, Inc. (PCIB Securities)	**100%**	100%	100%
Armstrong Securities, Inc. (ASI)	**80.00%**	80.00%	80.00%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60.00%**	60.00%	60.00%
Insurance Companies			
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
PCIB Europe S.p.A.	**100%**	100%	100%
Express Padala Frankfurt GmbH	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	-
BDO Remit (Canada) Ltd.	**100%**	100%	-
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
CBN Grupo International Holdings B.V. (CBN Grupo)	**60.00%**	60.00%	60.00%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2015 and 2014 represent the interests not held by BDO Unibank Group in ONB (nil in 2014), BDO Savings, BDO Leasing, BDO Rental, BDO Elite, Equimark, CBN Grupo and ASI. In 2015, BDO Capital initiated the consolidation of BDO Elite and BDO Savings under a three way merger transaction (see Note 26.3).

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

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

The measurement policies of BDO Unibank Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets, which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

2.5 Financial Assets

Financial assets, which are recognized when BDO Unibank Group becomes a party to contractual terms of the financial instrument, include cash and other financial instruments. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32. All other non-derivative financial instruments are treated as debt instruments.

2.5.1 Classification and Measurement of Financial Assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

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

(a) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, equity securities and government and private debt securities.

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

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents consist of cash, due from BSP and amounts due from other banks. Loans and other receivables includes loans to customers, interbank loans receivables, Securities Purchased Under Reverse Repurchase Agreement (SPURRA), sales contract receivables, and all receivables from customers and other banks. Loans and other receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, foreign currency notes and coins (FCNC) and SPURRA with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

(c) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consisted of government and private debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

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

(d) AFS Securities

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

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

2.5.2 Impairment of Financial Assets

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified yet with the individual financial assets in the group. BDO Unibank Group recognizes impairment loss based on the category of financial assets as shown below.

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

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group

includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as Miscellaneous – net under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of Republic Act No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

- clean loans and advances past due for a period of more than six months;
- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly receivables related to financing.

(b) Carried at Cost – AFS Financial Assets

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

(c) Carried at Fair Value – AFS Financial Assets

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

2.5.3 Items of Income and Expense Related to Financial Assets

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gains under Other Operating Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

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

2.5.4 Derecognition of Financial Assets

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

If the BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the BDO Unibank Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

BDO Unibank Group is a party to various foreign currency forwards, cross-currency swaps and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently 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 and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Certain derivatives may be designated as either: (i) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, (ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument depends on the hedging relationship designated by BDO Unibank Group.

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of financial position, net of applicable deferred tax.

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

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

Buildings	10 - 50 years
Leasehold rights and improvements	5 years
Furniture, fixtures and equipment	3 - 5 years

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.23).

The residual values and estimated useful lives of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 - 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.23).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 22).

2.9 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which is determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land.

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 22).

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

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

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in profit or loss (see Note 22).

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.23). Associates are all entities over which BDO Unibank Group has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings (Losses) of Associates account presented as part of Miscellaneous – net under Other Operating Income (Expenses) in the BDO Unibank Group's statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.23).

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

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are carried at cost, less any impairment losses (see Note 2.23).

2.12 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.23). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in profit or loss.

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

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

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

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

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interests method.

2.13 Prepayments and Other Resources

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

2.14 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.23). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.23).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and is tested annually for any impairment (see Note 2.23).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment in accordance with PAS 36 by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.23).

Branch licenses and customer lists are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate cash inflows for BDO Unibank Group.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

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

2.15 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and subordinated notes payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivatives with negative fair values are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Lease deposits from operating and finance leases (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888.

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

2.16 Offsetting Financial Instruments

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

2.17 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.18 Equity

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

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

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 19.6).

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized fair value gains (losses) on AFS securities arises from cumulative mark-to-market valuation of outstanding AFS securities.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets.

Accumulated translation adjustment pertains to exchange differences arising on translation of the resources and liabilities of foreign subsidiaries that are taken up in other comprehensive income (see Note 2.24).

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

Other reserves pertain to amount recognized from increase in percentage of ownership of any of the subsidiaries of BDO Unibank Group (see Note 19.6).

2.19 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan (see Note 24).

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

2.20 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

(a) Interest

Interest income and expenses are recognized in profit or loss for all financial assets or liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

(b) Service charges, fees and commissions

Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

(i) Commission and fees arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

(ii) Loan syndication fees are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(iii) Arranger fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(c) Trust fees

Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(d) Trading gain

Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.

(e) Income from assets sold or exchanged

Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

(f) Dividend

Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

(g) Rental income

Rental income arising from leased properties accounted for as operating lease is recognized on a straight-line basis over the lease terms and is recorded in profit or loss as part of Miscellaneous under Other Operating Income account (see Note 2.22).

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(i)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.21 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the

lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

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

(b) BDO Unibank Group as Lessee

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

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

2.23 Impairment of Non-financial Assets

BDO Unibank Group's real properties for development and sale, equity investments, goodwill, branch licenses, trading rights and customer lists recorded as part of Other Resources, premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future

cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.24 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

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

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

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branch and subsidiaries which are maintained in U.S. dollars, European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY) or Hong Kong dollars (HKD).

The operating results and financial position of foreign branch and subsidiaries which are measured using the U.S. dollars, Euro, GBP, JPY or HKD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

i. Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

ii. Income and expenses for each statement of income are translated at the monthly 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 other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.18). When a foreign operation is sold, the cumulative amount of exchange differences are recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY or HKD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.25 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows (see Note 23):

(a) Post-employment Defined Benefit

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

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected

unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

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

(d) Bonus Plans

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(e) Executive Stock Option Plan

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years (vesting period) starting from the date of the approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is included as part of Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) Unavailed Leaves

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO under Item (a).

2.26 Income Taxes

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 27).

2.27 Earnings Per Share

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

The diluted earnings per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.28 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.29 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying BDO Unibank Group's accounting policies, management has made the judgments, shown below and in the succeeding pages apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to

maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2013, BDO Unibank Group reclassified its HTM investments to AFS securities. Accordingly, the rest of the HTM portfolio was reclassified to AFS securities in accordance with PAS 39 (see Note 9.3).

(b) Evaluating Impairment of AFS Securities

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2015 and 2014 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) Distinguishing Operating and Finance Leases

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(e) Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PAS 39 or as Other properties (presented under Other resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.21 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

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

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

BDO Unibank Group reviews its AFS securities, HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank 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 the financial asset or a portfolio of similar financial assets. This evidence

may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

BDO Unibank Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if BDO Unibank Group had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) Determining Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates. BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(d) Estimating Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Properties

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other properties are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2015 and 2014, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Properties

Investment Properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition. BDO Unibank Group engages services of professional external or internal appraisers applying the relevant valuation methodologies as discussed in Note 6.

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

(f) Determining Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2015 and 2014 is disclosed in Note 27.1.

(g) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.23. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

(h) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

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

(i) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 18.

4. RISK MANAGEMENT

By their nature, BDO Unibank Group's activities are principally related to the use of financial instruments including derivatives. BDO Unibank Group accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn above average interest margins by investing these funds in high-quality assets. BDO Unibank Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. BDO Unibank Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price risks), credit and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital. BDO Unibank Group's Risk Management Committee (RMC) has overall responsibility for BDO Unibank Group's risk management systems and sets risk management policies across the full range of risks to which BDO Unibank Group is exposed. Specifically, BDO Unibank Group's RMC places limits on the level of exposure that can be taken in trading positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing BDO Unibank Group's statement of financial position, including BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the BDO Unibank Group's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

RMG has responsibility for the setting of risk policies across the full range of risks to which BDO Unibank Group is exposed.

In the performance of its function, RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.

- It disseminates the approved policies to the relevant businesses/functions including authorities delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. RMG then performs compliance review to ensure approved policies are adhered to.

- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.

- When adverse trends are observed in the account/portfolio, RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- RMG is responsible for the direct management of non-performing loan (NPL) accounts under its supervision and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity

risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2015 and 2014 in accordance with account classification of the BSP, is presented below. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2015				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 42,729	P -	P -	P -	P 42,729
Due from BSP and other banks	296,458	185	2	-	296,645
Loans and other receivables - net	416,421	118,609	222,848	624,874	1,382,752
Trading and investment Securities	9,672	22,205	41,375	152,507	225,759
Other resources*	3,245	-	-	80,124	83,369
Total Resources	768,525	140,999	264,225	857,505	2,031,254
Liabilities and Equity:					
Deposit liabilities	331,638	4,139	11,247	1,316,829	1,663,853
Bills and subordinated notes payable	39,319	16,077	40,974	11,203	107,573
Other liabilities	16,287	1,204	2,528	40,196	60,215
Total Liabilities	387,244	21,420	54,749	1,368,228	1,831,641
Equity	-	-	-	199,613	199,613
Total Liabilities and Equity	387,244	21,420	54,749	1,567,841	2,031,254
On-book gap	381,281	119,579	209,476	(710,336)	-
Cumulative on-book gap	381,281	500,860	710,336	-	-
Contingent assets	119,599	21,603	33,051	29,202	203,455
Contingent liabilities	179,137	26,887	38,036	27,256	271,316
Off-book gap	(59,538)	(5,284)	(4,985)	1,946	(67,861)
Net Periodic Gap	321,743	114,295	204,491	(708,390)	-
Cumulative Total Gap	**P 321,743**	**P 436,038**	**P 640,529**	**(P 67,861)**	**P -**

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

BDO Unibank Group

	2014				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,342	P -	P -	P -	P 41,342
Due from BSP and other banks	314,788	352	19	4	315,163
Loans and other receivables - net	453,499	134,949	149,859	474,623	1,212,930
Trading and investment Securities	11,387	5,512	54,301	150,310	221,510
Other resources*	6,771	2,114	-	63,819	72,704
Total Resources	827,787	142,927	204,179	688,756	1,863,649
Liabilities and Equity:					
Deposit liabilities	454,731	11,564	7,846	1,018,141	1,492,282
Bills and subordinated notes payable	47,948	2,372	55,066	5,005	110,391
Other liabilities	21,950	1,107	2,056	56,194	81,307
Total Liabilities	524,629	15,043	64,968	1,079,340	1,683,980
Equity	-	-	-	179,669	179,669
Total Liabilities and Equity	524,629	15,043	64,968	1,259,009	1,863,649
On-book gap	303,158	127,884	139,211	(570,253)	-
Cumulative on-book gap	303,158	431,042	570,253	-	-
Contingent assets	185,404	28,324	53,469	41,039	308,236
Contingent liabilities	216,686	29,243	60,510	39,824	346,263
Off-book gap	(31,282)	(919)	(7,041)	1,215	(38,027)
Net Periodic Gap	271,876	126,965	132,170	(569,038)	-
Cumulative Total Gap	P 271,876	P 398,841	P 531,011	(P 38,027)	P -

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

Parent Bank

	2015				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,767	P -	P -	P -	P 41,767
Due from BSP and other banks	281,785	-	-	-	281,785
Loans and other receivables - net	393,815	103,772	199,021	626,703	1,323,311
Trading and investment Securities	4,483	20,745	36,935	134,337	196,500
Other resources*	3,244	-	-	83,396	86,640
Total Resources	725,094	124,517	235,956	844,436	1,930,003
Liabilities and Equity:					
Deposit liabilities	313,766	3,483	10,103	1,275,695	1,603,047
Bills and subordinated notes payable	23,650	15,674	36,371	11,202	86,897
Other liabilities	15,386	-	-	33,984	49,370
Total Liabilities	352,802	19,157	46,474	1,320,881	1,739,314
Equity	-	-	-	190,689	190,689
Total Liabilities and Equity	352,802	19,157	46,474	1,511,570	1,930,003
On-book gap	372,292	105,360	189,482	(667,134)	-
Cumulative on-book gap	369,048	477,652	667,134	-	-
Contingent assets	110,458	17,240	11,412	7,739	146,849
Contingent liabilities	169,875	22,659	16,696	6,001	215,231
Off-book gap	(59,417)	(5,419)	(5,284)	1,738	(68,382)
Net Periodic Gap	312,875	99,941	184,198	(662,152)	-
Cumulative Total Gap	**P 312,875**	**P 412,816**	**P 597,014**	**(P 68,382)**	**P -**

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

Parent Bank

	2014				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,237	P -	P -	P -	P 41,237
Due from BSP and other banks	301,577	-	-	4	301,581
Loans and other receivables - net	450,461	128,662	137,660	465,401	1,182,184
Trading and investment Securities	9,402	4,570	46,109	135,368	195,449
Other resources*	6,484	2,113	-	64,025	72,622
Total Resources	809,161	135,345	183,769	664,798	1,793,073
Liabilities and Equity:					
Deposit liabilities	435,115	11,280	7,222	1,010,472	1,464,089
Bills and subordinated notes payable	35,298	1,819	46,238	11,744	95,099
Other liabilities	21,122	-	-	44,236	65,358
Total Liabilities	491,535	13,099	53,460	1,066,452	1,624,546
Equity	-	-	-	168,527	168,527
Total Liabilities and Equity	491,535	13,099	53,460	1,234,979	1,793,073
On-book gap	317,626	122,246	130,309	(570,181)	-
Cumulative on-book gap	317,626	439,872	570,181	-	-
Contingent assets	174,670	20,486	12,294	1,212	208,662
Contingent liabilities	198,922	21,621	20,191	1,210	241,944
Off-book gap	(24,252)	(1,135)	(7,897)	2	(33,282)
Net Periodic Gap	293,374	121,111	122,412	(570,179)	-
Cumulative Total Gap	P 293,374	P 414,485	P 536,897	(P 33,282)	P -

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

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

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

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure during the day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2015 and 2014 follows:

BDO Unibank Group

	2015			2014		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 64**	**P 314,473**	**P 314,537**	P 33	P 310,851	P 310,884
Due from other banks	**24,453**	**384**	**24,837**	45,200	421	45,621
Trading and investment securities:						
At FVTPL	**3,513**	**10,054**	**13,567**	2,242	6,526	8,768
AFS securities	**151,029**	**61,163**	**212,192**	154,132	58,610	212,742
Loans and other receivables	**240,412**	**1,142,340**	**1,382,752**	206,944	1,005,986	1,212,930
Other resources	**5,020**	**5,367**	**10,387**	3,407	4,544	7,951
	P 424,491	**P 1,533,781**	**P 1,958,272**	P 411,958	P 1,386,938	P 1,798,896
Liabilities:						
Deposit liabilities	**P 316,526**	**P 1,347,327**	**P 1,663,853**	P 291,809	P 1,200,473	P 1,492,282
Bills payable	**76,865**	**20,678**	**97,543**	85,000	15,361	100,361
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**1,372**	**54,741**	**56,113**	2,287	76,198	78,485
	P 394,763	**P 1,432,776**	**P 1,827,539**	P 379,096	P 1,302,062	P 1,681,158

Parent Unibank

	2015			2014		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P -**	**P 302,608**	**P 302,608**	P -	P 299,653	P 299,653
Due from other banks	**20,875**	**69**	**20,944**	43,092	73	43,165
Trading and investment securities:						
At FVTPL	**2,237**	**3,179**	**5,416**	1,993	3,320	5,313
AFS securities	**144,109**	**46,975**	**191,084**	147,136	43,000	190,136
Loans and other receivables	**241,803**	**1,081,508**	**1,323,311**	207,840	974,344	1,182,184
Other resources	**3,249**	**7,707**	**10,956**	3,407	4,202	7,609
	P 412,273	**P 1,442,046**	**P 1,854,319**	P 403,468	P 1,324,592	P 1,728,060
Liabilities:						
Deposit liabilities	**P 306,278**	**P 1,296,769**	**P 1,603,047**	P 284,653	P 1,179,436	P 1,464,089
Bills payable	**76,843**	**24**	**76,867**	85,000	69	85,069
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**1,073**	**44,662**	**45,735**	2,104	60,788	62,892
	P 384,194	**P 1,351,485**	**P 1,735,679**	P 371,757	P 1,250,323	P 1,622,080

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2015 and 2014 based on the expected interest realization or recognition are shown below and in the succeeding pages.

BDO Unibank Group

	2015					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 42,729	P 42,729
Due from BSP and other banks	10,682	120	2	-	285,841	296,645
Loans and other receivables	790,258	106,943	308,596	173,859	3,096	1,382,752
Trading and investment securities	3,919	22,206	110,183	75,885	13,566	225,759
Other resources*	-	-	-	-	83,369	83,369
Total Resources	804,859	129,269	418,781	249,744	428,601	2,031,254
Liabilities and Equity:						
Deposit liabilities	415,735	36,683	100,035	16,471	1,094,929	1,663,853
Bills and subordinated notes payable	42,600	16,148	38,466	10,008	351	107,573
Other liabilities	4,677	2,063	6,346	71	47,058	60,215
Total Liabilities	463,012	54,894	144,847	26,550	1,142,338	1,831,641
Equity	-	-	-	-	199,613	199,613
Total Liabilities and Equity	463,012	54,894	144,847	26,550	1,341,951	2,031,254
On-book gap	341,847	74,375	273,934	223,194	(913,350)	-
Cumulative on-book gap	341,847	416,222	690,156	913,350	-	-
Contingent assets	17,412	-	-	-	-	17,412
Contingent liabilities	17,318	-	-	-	-	17,318
Off-book gap	94	-	-	-	-	94
Net Periodic Gap	341,941	74,375	273,934	223,194	(913,350)	-
Cumulative Total Gap	**P 341,941**	**P 416,316**	**P 690,250**	**P 913,444**	**P 94**	**P -**

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

BDO Unibank Group

	2014					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,342	P 41,342
Due from BSP and other banks	35,045	342	19	-	279,757	315,163
Loans and other receivables	777,650	89,898	209,143	135,267	972	1,212,930
Trading and investment securities	6,880	5,512	116,052	87,931	5,135	221,510
Other resources*	-	-	-	-	72,704	72,704
Total Resources	819,575	95,752	325,214	223,198	399,910	1,863,649
Liabilities and Equity:						
Deposit liabilities	454,444	32,694	77,225	20,652	907,267	1,492,282
Bills and subordinated notes payable	49,049	2,804	48,477	10,061	-	110,391
Other liabilities	10,424	1,806	4,316	80	64,681	81,307
Total Liabilities	513,917	37,304	130,018	30,793	971,948	1,683,980
Equity	-	-	-	-	179,669	179,669
Total Liabilities and Equity	513,917	37,304	130,018	30,793	1,151,617	1,863,649
On-book gap	305,658	58,448	195,196	192,405	(751,707)	-
Cumulative on-book gap	305,658	364,106	559,302	751,707	-	-
Contingent assets	32,204	2,035	-	-	-	34,239
Contingent liabilities	32,198	2,012	-	-	-	34,210
Off-book gap	6	23	-	-	-	29
Net Periodic Gap	305,664	58,471	195,196	192,405	(751,707)	-
Cumulative Total Gap	P 305,664	P 364,135	P 559,331	P751,736	P 29	P -

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

Parent Bank

	2015					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,767	P 41,767
Due from BSP and other banks	6,233	-	-	-	275,552	281,785
Loans and other receivables	776,947	89,137	283,603	173,624	-	1,323,311
Trading and investment securities	778	20,745	101,063	68,498	5,416	196,500
Other resources*	-	-	-	-	86,640	86,640
Total Resources	783,958	109,882	384,666	242,122	409,375	1,930,003
Liabilities and Equity:						
Deposit liabilities	381,562	34,617	95,699	16,471	1,074,698	1,603,047
Bills and subordinated notes payable	23,650	15,674	37,565	10,008	-	86,897
Other liabilities	-	-	-	-	49,370	49,370
Total Liabilities	405,212	50,291	133,264	26,479	1,124,068	1,739,314
Equity	-	-	-	-	190,689	190,689
Total Liabilities and Equity	405,212	50,291	133,264	26,479	1,314,757	1,930,003
On-book gap	378,746	59,591	251,402	215,643	(905,382)	-
Cumulative on-book gap	378,746	438,337	689,739	905,382	-	-
Contingent assets	12,687	-	-	-	-	12,687
Contingent liabilities	12,612	-	-	-	-	12,612
Off-book gap	75	-	-	-	-	75
Net Periodic Gap	378,821	59,591	251,402	215,643	(905,382)	-
Cumulative Total Gap	**P 378,821**	**P 438,412**	**P 689,814**	**P 905,457**	**P 75**	**P -**

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

Parent Bank

	2014					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,237	P 41,237
Due from BSP and other banks	27,594	-	-	-	273,987	301,581
Loans and other receivables	775,241	83,717	192,091	131,135	-	1,182,184
Trading and investment securities	5,239	4,570	108,309	73,148	4,183	195,449
Other resources	-	-	-	-	72,622	72,622
Total Resources	808,074	88,287	300,400	204,283	392,029	1,793,073
Liabilities and Equity:						
Deposit liabilities	432,887	31,989	75,762	20,653	902,798	1,464,089
Bills and subordinated notes payable	35,356	1,819	47,864	10,060	-	95,099
Other liabilities	6,484	-	-	-	58,874	65,358
Total Liabilities	474,727	33,808	123,626	30,713	961,672	1,624,546
Equity	-	-	-	-	168,527	168,527
Total Liabilities and Equity	474,727	33,808	123,626	30,713	1,130,199	1,793,073
On-book gap	333,347	54,479	176,774	173,570	(738,170)	-
Cumulative on-book gap	333,347	387,826	564,600	738,170	-	-
Contingent assets	30,636	2,035	-	-	-	32,671
Contingent liabilities	30,633	2,012	-	-	-	32,645
Off-book gap	3	23	-	-	-	26
Net Periodic Gap	333,350	54,502	176,774	173,570	(738,170)	-
Cumulative Total Gap	P 333,350	P 387,852	P 564,626	P 738,196	P 26	P -

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

BDO Unibank Group's market risk management limits are generally categorized as limits on:

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

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

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

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

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

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

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

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

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

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

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

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

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2015		2014	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 10)**	**(P 165)**	(P 21)	(P 267)
Interest rate risk – Peso	**(86)**	**(733)**	(33)	(455)
Interest rate risk – USD	**(9)**	**(182)**	(10)	(329)
	(P 105)	**(P 1,080)**	(P 64)	(P 1,051)

Parent Bank

	2015		2014	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 10)**	**(P 162)**	(P 21)	(P 267)
Interest rate risk – Peso	**(66)**	**(587)**	(25)	(281)
Interest rate risk – USD	**(8)**	**(170)**	(10)	(283)
	(P 84)	**(P 919)**	(P 56)	(P 831)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2015 and 2014 is shown below.

BDO Unibank Group

	2015			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,335)**	**P 3,335**	**(P 1,668)**	**P 1,668**
As a percentage of the BDO Unibank Group's net interest income for 2015	**(5.9%)**	**5.9%**	**(2.9%)**	**2.9%**
Earnings-at-risk	**P 8,254**			

	2014			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 3,054)	P 3,054	(P 1,527)	P 1,527
As a percentage of the BDO Unibank Group's net interest income for 2014	(6.0%)	6.0%	(3.0%)	3.0%
Earnings-at-risk	P 1,419			

Parent Bank

	2015			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,656)**	**P 3,656**	**(P 1,828)**	**P 1,828**
As a percentage of the Parent Bank's net interest income for 2015	**(6.7%)**	**6.7%**	**(3.4%)**	**3.4%**
Earnings-at-risk	**P 8,929**			

	2014			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 3,350)	P 3,350	(P 1,675)	P 1,675
As a percentage of the Parent Bank's net interest income for 2014	(6.8%)	6.8%	(3.4%)	3.4%
Earnings-at-risk	P 1,535			

4.2.3 Price Risk

BDO Unibank Group is exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group classified on the statement of financial position either as AFS securities, HFT securities or financial assets at FVTPL. BDO Unibank Group is not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as HFT, financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index, which was 2.70% in 2015 and 2014 for securities classified as HFT securities, financial assets at FVTPL and AFS securities, with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2015	2014	**2015**	2014
HFT securities and Financial assets at FVTPL	**P 8**	P 12	**P -**	P -
AFS financial assets	**-**	-	**211**	110
	P 8	P 12	**P 211**	P 110

Parent Bank

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2015	2014	**2015**	2014
AFS financial assets	**P -**	P -	**P 145**	P 154

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. It manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and

monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

The RMG also undertakes portfolio management by reviewing BDO Unibank Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

4.3.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified: Grades AAA to B
- Watchlisted: Grade B
- Loans Especially Mentioned: Grade C
- Substandard: Grade D
- Doubtful: Grade E
- Loss: Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy

their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) Adversely Classified

i. Loans Especially Mentioned (LEM)

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

ii. Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cashflow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

iii. Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

iv. Loss

Accounts classified as "Loss" are individual credits 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.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

The following table shows the exposure to credit risk as of December 31, 2015 and 2014 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2015		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	**P 1,382,752**	**P 24,837**	**P 217,541**
Individually Impaired			
Grade B: Watchlisted	P 5,024	P -	P -
Grade C: LEM	12,895	-	-
Grade D: Substandard	2,165	-	-
Grade E: Doubtful	1,421	-	1,061
Grade F: Loss	4,302	-	263
Gross amount	25,807	-	1,324
Allowance for impairment	(7,842)	-	(1,324)
Carrying amount	17,965	-	-
Collectively Impaired			
Unclassified	1,030	-	-
Grade C: LEM	7,997	-	-
Grade D: Substandard	3,456	-	-
Grade E: Doubtful	851	-	-
Grade F: Loss	3,273	-	-
Gross amount	16,607	-	-
Allowance for impairment	(5,488)	-	
Carrying amount	11,119	-	-
Past Due But Not Impaired			
Unclassified	1,635	-	-
Neither Past Due Nor Impaired			
Unclassified	1,352,033	24,837	217,541
Total Carrying Amount	**P 1,382,752**	**P 24,837**	**P 217,541**

** Trading and Investment Securities do not include equity securities.*

BDO Unibank Group

	2014		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,212,930	P 45,621	P 211,353
Individually Impaired			
Grade C: LEM	11,873	-	-
Grade D: Substandard	1,625	-	-
Grade E: Doubtful	2,083	-	1,008
Grade F: Loss	5,296	-	262
Gross amount	20,877	-	1,270
Allowance for impairment	(7,164)	-	(1,270)
Carrying amount	13,713	-	-
Collectively Impaired			
Unclassified	275	-	17,941
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,439	-	17,941
Allowance for impairment	(4,961)	-	(121)
Carrying amount	7,478	-	17,820
Past Due But Not Impaired			
Unclassified	1,275	-	-
Neither Past Due Nor Impaired			
Unclassified	1,190,464	45,621	193,533
Total Carrying Amount	P 1,212,930	P 45,621	P 211,353

** Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,015**	P 718
31 to 60 days	**516**	296
61 to 90 days	**31**	232
91 to 180 days	**73**	11
More than 180 days	**-**	18
	P 1,635	P 1,275

An aging of neither past due nor impaired accounts of BDO Unibank Group reckoned from the last payment date follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,330,278**	P 1,167,276
31 to 60 days	**3,561**	2,100
61 to 90 days	**18,194**	21,088
	P 1,352,033	P 1,190,464

Parent Bank

	2015		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities***
Carrying Amount	**P 1,323,311**	**P 20,944**	**P 192,006**
Individually Impaired			
Grade B: Watchlisted	P 3,580	P -	P -
Grade C: LEM	12,025	-	-
Grade D: Substandard	1,960	-	-
Grade E: Doubtful	1,211	-	1,061
Grade F: Loss	4,157	-	263
Gross amount	22,933	-	1,324
Allowance for impairment	(6,565)	-	(1,324)
Carrying amount	16,368	-	-
Collectively Impaired			
Unclassified	-	-	-
Grade C: LEM	7,997	-	-
Grade D: Substandard	3,456	-	-
Grade E: Doubtful	851	-	-
Grade F: Loss	3,273	-	-
Gross amount	15,577	-	-
Allowance for impairment	(5,301)	-	
Carrying amount	10,276	-	-
Past Due But Not Impaired			
Unclassified	1,546	-	-
Neither Past Due Nor Impaired			
Unclassified	1,295,121	20,944	192,006
Total Carrying Amount	**P 1,323,311**	**P 20,944**	**P 192,006**

** Trading and Investment Securities do not include equity securities.*

Parent Bank

	2014		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,182,184	P 43,165	P 189,060
Individually Impaired			
Grade C: LEM	P 11,086	P -	P -
Grade D: Substandard	1,319	-	-
Grade E: Doubtful	1,899	-	1,008
Grade F: Loss	5,141	-	262
Gross amount	19,445	-	1,270
Allowance for impairment	(6,921)	-	(1,270)
Carrying amount	12,524	-	-
Collectively Impaired			
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,164	-	-
Allowance for impairment	(4,646)	-	-
Carrying amount	7,518	-	-
Past Due But Not Impaired			
Unclassified	1,246	-	-
Neither Past Due Nor Impaired			
Unclassified	1,160,896	43,165	189,060
Total Carrying Amount	P 1,182,184	P 43,165	P 189,060

** Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,010**	P 718
31 to 60 days	**515**	293
61 to 90 days	**19**	219
91 to 180 days	**2**	1
More than 180 days	**-**	15
	P 1,546	P 1,246

An aging of neither past due nor impaired accounts of Parent Bank reckoned from the last payment date as follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,291,980**	P 1,159,060
31 to 60 days	**2,951**	1,830
61 to 90 days	**190**	6
	P 1,295,121	P 1,160,896

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P41,888 and P132,385, respectively, for 2015 and P54,109 and P121,794, respectively, for 2014 in BDO Unibank Group' financial statements and P41,876 and P132,192, respectively, for 2015 and P54,109 and P121,575, respectively, for 2014 in the Parent Bank financial statements (see Note 31.3).

4.3.2 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. BDO Unibank Group holds collateral against loans and other receivables in the form of property, debt securities, equity securities, hold-out deposits and others.

Estimate of the fair value of collateral and other security enhancements held against the following loans and other receivables risk groupings as of December 31 follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Individually impaired				
Property	**P 9,708**	P 7,301	**P 8,852**	P 5,464
Equity security	**2,571**	4,232	**2,571**	3,845
Hold-out deposits	**29**	27	**29**	27
Debt security	**1**	-	**1**	-
Others	**1,289**	1,224	**1,289**	1,224
	13,598	12,784	**12,742**	10,560
Collectively impaired				
Property	**7,146**	7,746	**7,146**	7,746
Hold-out deposits	**-**	2	**-**	2
Others	**6,417**	3,807	**6,417**	3,807
	13,563	11,555	**13,563**	11,555
Past due but not impaired				
Property	**1,692**	2,231	**1,674**	2,210
Hold-out deposits	**13**	27	**13**	27
Debt security	**-**	6	**-**	6
Others	**1,491**	584	**1,491**	584
	3,196	2,848	**3,178**	2,827
Neither past due nor impaired				
Property	**457,885**	433,182	**412,119**	409,090
Equity security	**127,999**	152,214	**127,036**	151,934
Hold-out deposits	**78,696**	78,709	**78,696**	78,709
Debt security	**1,762**	4,532	**1,466**	4,101
Others	**334,996**	389,866	**334,655**	389,798
	1,001,338	1,058,503	**953,972**	1,033,632
	P 1,031,695	P 1,085,690	**P 983,455**	P 1,058,574

As of December 31, 2015 and 2014, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

4.3.3 Concentrations of Credit Risk

BDO Unibank Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

BDO Unibank Group

	2015			2014		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 412,108**	**P 169,064**	**P 132,092**	P 446,084	P 181,628	P 128,548
Wholesale and retail trade	**-**	**186,344**	**553**	-	161,425	606
Real estate activities	**-**	**184,770**	**19,874**	-	114,534	18,286
Manufacturing	**-**	**149,197**	**20,197**	-	137,676	20,709
Electricity, gas, steam and air-conditioning supply	**-**	**126,441**	**-**	-	103,584	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**112,751**	**-**	-	113,049	-
Transportation and storage	**-**	**55,067**	**1,991**	-	50,267	1,784
Accommodation and food service activities	**-**	**38,478**	**-**	-	32,834	-
Construction	**-**	**25,942**	**-**	-	23,196	-
Information and communication	**-**	**22,930**	**-**	-	25,462	-
Arts, entertainment and recreation	**-**	**18,308**	**-**	-	17,613	-
Professional, scientific and technical services	**-**	**17,409**	**-**	-	15,128	-
Agriculture, forestry and fishing	**-**	**14,702**	**-**	-	9,124	-
Water supply, sewerage waste management and remediation activities	**-**	**13,450**	**-**	-	13,987	-
Human health and social work activities	**-**	**11,497**	**-**	-	9,316	-
Mining and quarrying	**-**	**11,149**	**-**	-	6,669	-
Education	**-**	**9,773**	**-**	-	1,827	-
Administrative and support services	**-**	**6,794**	**-**	-	4,877	-
Public administrative and defense; compulsory social security	**-**	**257**	**-**	-	322	-
Activities of extraterritorial and organizations and bodies	**-**	**28**	**-**	-	53	-
Other service activities	**-**	**105,001**	**44,158**	-	66,798	42,811
	P 412,108	**P 1,279,352**	**P 218,865**	P 446,084	P 1,089,369	P 212,744
Concentration by location:						
Philippines	**P 388,137**	**P 1,200,852**	**P 180,232**	P 402,549	P 1,024,278	P 172,074
Others	**23,971**	**78,500**	**38,633**	43,535	65,091	40,670
	P 412,108	**P 1,279,352**	**P 218,865**	P 446,084	P 1,089,369	P 212,744

** Cash and cash equivalents include SPURRA and FCNC.*
*** Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*
**** Trading and investment securities are reported as gross of allowance.*

Parent Bank

	2015			2014		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 385,226**	**P 166,885**	**P 111,475**	P 432,397	P 179,415	P 109,896
Wholesale and retail traded	**-**	**180,861**	**503**	-	158,622	513
Real estate activities	**-**	**178,859**	**18,285**	-	112,264	17,982
Manufacturing	**-**	**145,096**	**17,880**	-	134,201	18,523
Electricity, gas, steam and air-conditioning supply	**-**	**125,008**	**-**	-	101,667	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**110,557**	**-**	-	112,172	-
Transportation and storage	**-**	**51,290**	**1,876**	-	47,566	1,439
Accommodation and food service activities	**-**	**38,375**	**-**	-	32,827	-
Information and communication	**-**	**22,278**	**-**	-	24,897	
Construction	**-**	**21,718**	**-**	-	19,955	-
Professional, scientific and technical services	**-**	**17,191**	**-**	-	15,010	-
Arts, entertainment and recreation	**-**	**15,636**	**-**	-	15,075	-
Water supply, sewerage waste management and remediation activities	**-**	**12,876**	**-**	-	13,411	-
Agriculture, forestry and fishing	**-**	**11,318**	**-**	-	9,016	-
Human health and social work activities	**-**	**10,651**	**-**	-	8,901	-
Mining and quarrying	**-**	**9,438**	**-**	-	4,542	-
Administrative and support services	**-**	**6,028**	**-**	-	4,469	-
Education	**-**	**2,376**	**-**	-	1,794	-
Public administrative and defense; compulsory social security	**-**	**116**	**-**	-	303	-
Activities of extraterritorial and organizations bodies	**-**	**28**	**-**	-	53	-
Other service activities	**-**	**104,241**	**43,311**	-	70,420	41,977
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330
Concentration by location:						
Philippines	**P 364,859**	**P 1,150,764**	**P 157,355**	P 391,093	P 1,001,024	P 152,359
Others	**20,367**	**80,062**	**35,975**	41,304	65,556	37,971
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330

** Cash and cash equivalents include SPURRA and FCNC.*
*** Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*
**** Trading and investment securities are reported as gross of allowance.*

4.4 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management System (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs and KRIs. To capture and assess operational risks arising from information security concerns, a bank-wide asset inventory was prepared. The inventory identified critical applications, sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as, protection measures in place to mitigate these risks.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's four service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined below as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, and financial advisory services;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases; and,

(e) ***Others*** – includes asset management, insurance and securities brokerage, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2015, 2014 and 2013 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2015							
Statement of Income							
Total interest income							
External	P 69,204	P 83	P 1,215	P 1,566	P 59	P -	P 72,127
Intersegment	207	2	-	1	9	(219)	-
	69,411	85	1,215	1,567	68	(219)	72,127
Total interest expense							
External	14,410	1	289	466	-	-	15,166
Intersegment	17	70	-	99	35	(221)	-
	14,427	71	289	565	35	(221)	15,166
Net interest income	54,984	14	926	1,002	33	2	56,961
Other operating income							
Investment banking fees	-	1,110	-	-	-	-	1,110
Others	30,800	368	1,096	1,039	1,609	(4,083)	30,829
	30,800	1,478	1,096	1,039	1,609	(4,083)	31,939
Other operating expenses							
Depreciation and amortization	3,161	54	48	670	28	-	3,961
Impairment losses	2,887	2	25	83	3	-	3,000
Others	48,109	640	1,060	564	951	(141)	51,183
	54,157	696	1,133	1,317	982	(141)	58,144
Profit before tax	31,627	796	889	724	660	(3,940)	30,756
Tax expense	4,875	234	221	167	204	-	5,701
Net profit	**P 26,752**	**P 562**	**P 668**	**P 557**	**P 456**	**(P 3,940)**	**P 25,055**
Statement of Financial Position							
Total resources							
Segment assets	P 1,944,884	P 6,851	P 51,527	P 34,510	P 9,939	(P 30,150)	P2,017,561
Intangible assets	4,517	102	13	51	28	2,903	7,614
Deferred tax assets	6,271	(216)	58	(14)	(20)	-	6,079
	P 1,955,672	**P 6,737**	**P 51,598**	**P 34,547**	**P 9,947**	**(P 27,247)**	**P2,031,254**
Total liabilities	**P 1,761,203**	**P 5,082**	**P 46,024**	**P 29,331**	**P 2,418**	**(P 12,417)**	**P1,831,641**
Other segment information							
Capital expenditures	**P 8,919**	**P 20**	**P 17**	**P 1,150**	**P 145**	**P -**	**P 10,251**
Investment in associates under equity method	**5,656**	**85**	**-**	**-**	**-**	**-**	**5,741**
Share in the profit of associates	**817**	**20**	**-**	**-**	**-**	**-**	**837**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2014							
Statement of Income							
Total interest income							
External	P 60,673	P 73	P 1,298	P 1,445	P 94	P -	P 63,583
Inter segment	198	4	4	-	8	(214)	-
	60,871	77	1,302	1,445	102	(214)	63,583
Total interest expense							
External	11,715	3	242	366	32	-	12,358
Inter segment	12	73	-	93	34	(212)	-
	11,727	76	242	459	66	(212)	12,358
Net interest income	49,144	1	1,060	986	36	(2)	51,225
Other operating income							
Investment banking fees	-	1,144	-	-	-	-	1,144
Others	27,026	269	627	827	2,074	(2,480)	28,343
	27,026	1,413	627	827	2,074	(2,480)	29,487
Other operating expenses							
Depreciation and amortization	2,640	48	46	498	30	-	3,262
Impairment losses	5,014	(1)	1	100	-	-	5,114
Others	42,197	689	1,031	507	979	(135)	45,268
	49,851	736	1,078	1,105	1,009	(135)	53,644
Profit before tax	26,319	678	609	708	1,101	(2,347)	27,068
Tax expense	3,522	198	168	206	146	-	4,240
Net profit	P 22,797	P 480	P 441	P 502	P 955	(P 2,347)	P 22,828
Statement of Financial Position							
Total resources							
Segment assets	P 1,782,613	P 13,949	P 38,779	P 29,220	P 10,308	(P 21,693)	P1,853,176
Intangible assets	4,247	102	18	60	13	-	4,440
Deferred tax assets	6,213	(193)	73	(41)	(19)	-	6,033
	P 1,793,073	P 13,858	P 38,870	P 29,239	P 10,302	(P 21,693)	P1,863,649
Total liabilities	P 1,624,546	P 10,694	P 33,024	P 24,255	P 2,243	(P 10,782)	P1,683,980
Other segment information							
Capital expenditures	P 7,255	P 16	P 41	P 1,183	P 23	P -	P 8,518
Investment in associates under equity method	5,840	51	-	-	-	-	5,891
Share in the profit of associates	637	15	-	-	-	-	652

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2013							
Statement of Income							
Total interest income							
External	P 54,262	P 72	P 956	P 1,292	P 24	P -	P 56,606
Inter-segment	217	3	2	-	9	(231)	-
	54,479	75	958	1,292	33	(231)	56,606
Total interest expense							
External	13,001	16	158	265	-	-	13,440
Inter-segment	12	40	1	148	29	(230)	-
	13,013	56	159	413	29	(230)	13,440
Net interest income	41,466	19	799	879	4	(1)	43,166
Other operating income							
Investment banking fees	-	1,165	-	-	-	-	1,165
Others	27,079	266	1,452	615	1,975	(708)	30,679
	27,079	1,431	1,452	615	1,975	(708)	31,844
Other operating expenses							
Depreciation and amortization	2,356	15	42	327	20	-	2,760
Impairment losses	6,216	44	32	126	(43)	626	7,001
Others	38,015	542	853	461	756	(128)	40,499
	46,587	601	927	914	733	498	50,260
Profit before tax	21,958	849	1,324	580	1,246	(1,207)	24,750
Tax expense	1,428	223	154	160	139	-	2,104
Net profit	P 20,530	P 626	P 1,170	P 420	P 1,107	(P 1,207)	P 22,646
Statement of Financial Position							
Total resources							
Segment assets	P 1,609,652	P 5,933	P 39,762	P 25,376	P 10,552	(P 25,163)	P 1,666,112
Intangible assets	612	101	11	-	1	-	725
Deferred tax assets	6,113	(190)	67	(24)	(25)	-	5,941
	P 1,616,377	P 5,844	P 39,840	P 25,352	P 10,528	(P 25,163)	P 1,672,778
Total liabilities	P 1,461,077	P 3,108	P 33,601	P 20,580	P 2,317	(P 12,259)	P 1,508,424
Other segment information							
Capital expenditures	P 3,328	P 1,486	P 21	P 1,101	P 1,210	P -	P 7,146
Investment in associates under equity method	5,362	36	-	-	-	-	5,398
Share in the profit of associates	593	13	-	-	-	-	606

Currently, BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.1%, 1.3% and 0.8% of BDO Unibank Group's total revenues in 2015, 2014 and 2013, respectively, and 1.2% and 1.1% of BDO Unibank Group's total resources as of December 31, 2015 and 2014, respectively (see Note 1).

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

	2015			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 42,729	P -	P 42,729	P 42,729
Due from BSP	271,808	-	271,808	271,808
Due from other banks	24,837	-	24,837	24,837
Loans and other receivables	1,382,752	-	1,382,752	1,397,542
Other resources	9,987	-	9,987	10,387
Financial assets at FVTPL	-	13,567	13,567	13,567
AFS securities*	-	211,943	211,943	211,943
	P 1,732,113	P 225,510	P 1,957,623	P 1,972,813
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,663,853	P -	P 1,663,853	P 1,667,276
Bills payable	97,543	-	97,543	98,181
Subordinated notes payable	10,030	-	10,030	9,990
Other liabilities	51,946	-	51,946	51,946
At fair value –				
Other liabilities	-	4,167	4,167	4,167
	P 1,823,372	P 4,167	P 1,827,539	P 1,831,560

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 41,342	P -	P 41,342	P 41,342
Due from BSP	269,542	-	269,542	269,542
Due from other banks	45,621	-	45,621	45,621
Loans and other receivables	1,212,930	-	1,212,930	1,229,918
Other resources	7,551	-	7,551	7,951
Financial assets at FVTPL	-	8,768	8,768	8,768
AFS securities*	-	212,407	212,407	212,407
	P 1,576,986	P 221,175	P 1,798,161	P 1,815,549
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,492,282	P -	P 1,492,282	P 1,476,026
Bills payable	100,361	-	100,361	100,955
Subordinated notes payable	10,030	-	10,030	10,347
Other liabilities	75,905	-	75,905	75,905
At fair value –				
Other liabilities	-	2,580	2,580	2,580
	P 1,678,578	P 2,580	P 1,681,158	P 1,665,813

Parent Bank

	2015			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Loans and receivables:				
Cash and other cash items	**P 41,767**	**P -**	**P 41,767**	**P 41,767**
Due from BSP	**260,841**	**-**	**260,841**	**260,841**
Due from other banks	**20,944**	**-**	**20,944**	**20,944**
Loans and other receivables	**1,323,311**	**-**	**1,323,311**	**1,338,100**
Other resources	**10,556**	**-**	**10,556**	**10,956**
Financial assets at FVTPL	**-**	**5,416**	**5,416**	**5,416**
AFS securities*	**-**	**190,891**	**190,891**	**190,891**
	P 1,657,419	**P 196,307**	**P 1,853,726**	**P 1,868,915**
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 1,603,047**	**P -**	**P 1,603,047**	**P 1,603,440**
Bills payable	**76,867**	**-**	**76,867**	**77,504**
Subordinated notes payable	**10,030**	**-**	**10,030**	**9,990**
Other liabilities	**44,542**	**-**	**44,542**	**44,542**
At fair value –				
Other liabilities	**-**	**1,193**	**1,193**	**1,193**
	P 1,734,486	**P 1,193**	**P 1,735,679**	**P 1,736,669**

Parent Bank

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 41,237	P -	P 41,237	P 41,237
Due from BSP	258,416	-	258,416	258,416
Due from other banks	43,165	-	43,165	43,165
Loans and other receivables	1,182,184	-	1,182,184	1,198,795
Other resources	7,209	-	7,209	7,609
Financial assets at FVTPL	-	5,313	5,313	5,313
AFS securities*	-	189,927	189,927	189,927
	P 1,532,211	P 195,240	P 1,727,451	P 1,744,462
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,464,089	P -	P 1,464,089	P 1,445,056
Bills payable	85,069	-	85,069	85,718
Subordinated notes payable	10,030	-	10,030	10,347
Other liabilities	62,076	-	62,076	62,076
At fair value –				
Other liabilities	-	816	816	816
	P 1,621,264	P 816	P 1,622,080	P 1,604,013

** Unquoted AFS securities (amounting to P249 and P335 for BDO Unibank Group in 2015 and 2014, respectively, and P193 and P209 for the Parent Bank in 2015 and 2014, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

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

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2015 and 2014 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P249 and P335 in 2015 and 2014, respectively, in BDO Unibank Group financial statements and P193 and P209 in 2015 and 2014, respectively, in the Parent Bank financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 5,461**	**P -**	**P 5,461**
Government bonds		**4,855**	**-**	**-**	**4,855**
Other debt securities		**3,054**	**-**	**-**	**3,054**
Equity securities – quoted		**197**	**-**	**-**	**197**
		8,106	**5,461**	**-**	**13,567**
AFS securities – net:	9.2				
Government debt securities		**137,161**	**-**	**-**	**137,161**
Other debt securities		**67,011**	**-**	**-**	**67,011**
Equity securities – quoted		**7,585**	**186**	**-**	**7,771**
		211,757	**186**	**-**	**211,943**
		P 219,863	**P 5,647**	**P -**	**P 225,510**
Liabilities – Derivatives with negative fair values	18	**P 36**	**P 4,131**	**P -**	**P 4,167**
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 3,609	P -	P 3,609
Government bonds		4,199	-	-	4,199
Other debt securities		824	-	-	824
Equity securities – quoted		136	-	-	136
		5,159	3,609	-	8,768
AFS securities – net:	9.2				
Government debt securities		141,566	-	-	141,566
Other debt securities		61,156	-	-	61,156
Equity securities – quoted		9,684	1	-	9,685
		212,406	1	-	212,407
		P 217,565	P 3,610	P -	P 221,175
Liabilities – Derivatives with negative fair values	18	P 30	P 2,550	P -	P 2,580

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 1,687**	**P -**	**P 1,687**
Government bonds		**3,679**	**-**	**-**	**3,679**
Other debt securities		**50**	**-**	**-**	**50**
		3,729	**1,687**	**-**	**5,416**
AFS securities – net:	9.2				
Government debt securities		**127,324**	**-**	**-**	**127,324**
Other debt securities		**59,266**	**-**	**-**	**59,266**
Equity securities – quoted		**4,116**	**185**	**-**	**4,301**
		190,706	**185**	**-**	**190,891**
		P 194,435	**P 1,872**	**P -**	**P 196,307**
Liabilities – Derivatives with negative fair values	18	**P 36**	**P 1,157**	**P -**	**P 1,193**
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 1,112	P -	P 1,112
Government bonds		3,983	-	-	3,983
Other debt securities		218	-	-	218
		4,201	1,112	-	5,313
AFS securities – net:	9.2				
Government debt securities		127,866	-	-	127,866
Other debt securities		55,881	-	-	55,881
Equity securities - quoted		6,179	1	-	6,180
		189,926	1	-	189,927
		P 194,127	P 1,113	P -	P 195,240
Liabilities – Derivatives with negative fair values	18	P 30	P 786	P -	P 816

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

(a) Equity securities

As of December 31, 2015 and 2014, instruments included in Level 1 consist of quoted equity securities classified as financial assets at FVTPL or AFS securities. These securities were valued based on their closing prices on the PSE.

Golf club shares classified as AFS securities are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

(b) Debt securities

The fair value of the debt securities of BDO Unibank Group and the Parent Bank, which are categorized within Level 1, is discussed below.

(i) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEX which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

The fair values of ROP warrants which are categorized within Level 1, is determined to be the current mid-price based on the last trading transaction as defined by third-party market makers. The fair value of other derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2 (c)].

6.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Resources:				
Cash and other cash items	**P 42,729**	**P -**	**P -**	**P 42,729**
Due from BSP	**271,808**	**-**	**-**	**271,808**
Due from other banks	**24,837**	**-**	**-**	**24,837**
Loans and other receivable	**-**	**-**	**1,397,542**	**1,397,542**
Other resources	**5,021**	**-**	**5,366**	**10,387**
	P 344,395	**P -**	**P 1,402,908**	**P 1,747,303**
Liabilities:				
Deposit liabilities	**P 1,551,284**	**P 115,992**	**P -**	**P 1,667,276**
Bills payable	**49,988**	**48,193**	**-**	**98,181**
Subordinated notes payable		**9,990**	**-**	**9,990**
Other liabilities	**-**	**-**	**51,946**	**51,946**
	P 1,601,272	**P 174,175**	**P 51,946**	**P 1,827,393**
December 31, 2014				
Resources:				
Cash and other cash items	P 41,342	P -	P -	P 41,342
Due from BSP	269,542	-	-	269,542
Due from other banks	45,621	-	-	45,621
Loans and other receivable	-	-	1,229,918	1,229,918
Other resources	3,695	-	4,256	7,951
	P 360,200	P -	P 1,234,174	P 1,594,374
Liabilities:				
Deposit liabilities	P 1,395,626	P -	P 80,400	P 1,476,026
Bills payable	27,606	73,349	-	100,955
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	75,905	75,905
	P 1,423,232	P 83,696	P 156,305	P 1,663,233

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Resources:				
Cash and other cash items	P 41,767	P -	P -	P 41,767
Due from BSP	260,841	-	-	260,841
Due from other banks	20,944	-	-	20,944
Loans and other receivables	-	-	1,338,100	1,338,100
Other resources	3,249	-	7,707	10,956
	P 326,801	P -	P 1,345,807	P 1,672,608
Liabilities:				
Deposit liabilities	P 1,491,855	P 111,585	P -	P 1,603,440
Bills payable	37,871	39,633	-	77,504
Subordinated notes payable	-	9,990	-	9,990
Other liabilities	-	-	44,542	44,542
	P 1,529,726	P 161,208	P 44,542	P 1,735,476
December 31, 2014				
Resources:				
Cash and other cash items	P 41,237	P -	P -	P 41,237
Due from BSP	258,416	-	-	258,416
Due from other banks	43,165	-	-	43,165
Loans and other receivables	-	-	1,198,795	1,198,795
Other resources	3,407	-	4,202	7,609
	P 346,225	P -	P 1,202,997	P 1,549,222
Liabilities:				
Deposit liabilities	P 1,366,117	P -	P 78,939	P 1,445,056
Bills payable	27,606	58,112	-	85,718
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	62,076	62,076
	P 1,393,723	P 68,459	P 141,015	P 1,603,197

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) AFS Securities

The fair value of AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) Loans and Other Receivables

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

(d) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg.

(e) Other Resources and Liabilities

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

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2015 and 2014 are shown below.

BDO Unibank Group

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 14,398	P 14,398
Building and improvements	-	-	10,075	10,075
	P -	**P -**	**P 24,473**	**P 24,473**

	2014			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 14,612	P 14,612
Building and improvements		-	7,897	7,897
	P -	P -	P 22,509	P 22,509

Parent Bank

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 13,041	P 13,041
Building and improvements	-	-	8,201	8,201
	P -	**P -**	**P 21,242**	**P 21,242**

	2014			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 13,406	P 13,406
Building and improvements		-	6,100	6,100
	P -	P -	P 19,506	P 19,506

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2015 and 2014 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers, which were used by BDO Unibank Group and Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(b) Fair Value Measurement for Buildings and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2015 and 2014.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2015 and 2014 are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2015			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 4,745	P 569	P -	P 4,176
Financial assets at FVTPL:				
Currency swaps	2,526	717	-	1,809
Interest rate swaps	55	55	-	-
Loans and receivables –				
Receivables from customers	35,783	1,113	33,806	864
Total	P 43,109	P 2,454	P 33,806	P 6,849

	December 31, 2014			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 31,574	P 22,779	P -	P 8,795
Financial assets at FVTPL:				
Currency forwards	1,114	1,114	-	-
Currency swaps	4	4	-	-
Interest rate swaps	32	32	-	-
Loans and receivables –				
Receivables from customers	63,986	908	63,078	-
Total	P 96,710	P 24,837	P 63,078	P 8,795

	December 31, 2015			
	Financial assets	**Financial liabilities available for set-off**	**Collateral received**	**Net Amount**
Parent Bank				
AFS securities	**P 2,898**	**P 570**	**P -**	**P 2,328**
Financial assets at FVTPL:				
Currency swaps	**5**	**5**	**-**	**-**
Interest rate swaps	**39**	**39**	**-**	**-**
Loans and receivables –				
Receivables from customers	**33,671**	**7**	**33,664**	**-**
Total	**P 36,613**	**P 621**	**P 33,664**	**P 2,328**

	December 31, 2014			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
Parent Bank				
AFS securities	P 29,604	P 22,779	P -	P 6,825
Financial assets at FVTPL:				
Currency swaps	4	4	-	-
Interest rate swaps	26	23	-	3
Loans and receivables –				
Receivables from customers	63,079	74	62,988	17
Total	P 92,713	P 22,880	P 62,988	P 6,845

The currency forwards and interest rate swaps above relates to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set off and presented at net in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2015			
	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
BDO Unibank Group				
Deposit liabilities	**P 47,269**	**P 33,806**	**P -**	**P 13,463**
Bills payable	**1,682**	**-**	**1,682**	**-**
Derivatives with negative fair values:				
Currency swaps	**717**	**717**	**-**	**-**
Interest rate swaps	**72**	**55**	**-**	**17**
Total	**P 49,740**	**P 34,578**	**P 1,682**	**P 13,480**

	December 31, 2014			
	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
BDO Unibank Group				
Deposit liabilities	P 70,137	P 63,078	P -	P 7,059
Bills payable	23,977	-	23,977	-
Derivatives with negative fair values:				
Currency forwards	1,414	826	288	300
Currency swaps	28	4	-	24
Interest rate swaps	34	32	-	2
Total	P 95,590	P 63,940	P 24,265	P 7,385

	December 31, 2015			
	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
Parent Bank				
Deposit liabilities	**P 47,106**	**P 33,664**	**P -**	**P 13,442**
Bills payable	**577**	**-**	**577**	**-**
Derivatives with negative fair values:				
Currency swaps	**20**	**5**	**-**	**15**
Interest rate swaps	**47**	**39**	**-**	**8**
Total	**P 47,750**	**P 33,708**	**P 577**	**P 13,465**

	December 31, 2014			
	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
Parent Bank				
Deposit liabilities	P 70,035	P 62,988	P -	P 7,047
Bills payable	22,853	-	22,853	-
Derivatives with negative fair values:				
Currency swaps	28	4	-	24
Interest rate swaps	23	23	-	-
Total	P 92,939	P 63,015	P 22,853	P 7,071

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Cash and other cash items	**P 42,729**	P 41,342	**P 41,767**	P 41,237
Due from BSP:				
Mandatory reserves	**259,028**	235,432	**251,933**	230,005
Other than mandatory reserves	**12,780**	34,110	**8,908**	28,411
	271,808	269,542	**260,841**	258,416
	P 314,537	P 310,884	**P 302,608**	P 299,653

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rates of 2.5% in 2015, 2.0% to 2.5% in 2014 and 1.9% to 3.5% in 2013. Total interest income earned amounted to P738, P2,026 and P1,555 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P592, P1,787 and P1,363 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 20).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Foreign banks	**P 23,789**	P 43,559	**P 20,338**	P 41,276
Local banks	**1,048**	2,062	**606**	1,889
	P 24,837	P 45,621	**P 20,944**	P 43,165

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
U.S. dollars	**P 17,492**	P 40,663	**P 14,871**	P 38,885
Other foreign currencies	**6,961**	4,537	**6,004**	4,207
Philippine pesos	**384**	421	**69**	73
	P 24,837	P 45,621	**P 20,944**	P 43,165

Annual interest rates on these deposits range from 0.01% to 1.50% in 2015, 0.01% to 3.30% in 2014 and 0.01% to 2.50% in 2013 in BDO Unibank Group's financial statements and 0.01% to 0.80% in 2015, 0.01% to 0.70% in 2014 and 0.01% to 1.00% in 2013 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P57, P39 and P21 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P43, P35 and P18 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 20).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Financial assets at FVTPL	**P 13,567**	P 8,768	**P 5,416**	P 5,313
AFS securities – net	**212,192**	212,742	**191,084**	190,136
	P 225,759	P 221,510	**P 196,500**	P 195,449

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Derivative financial assets	**P 5,461**	P 3,609	**P 1,687**	P 1,112
Government bonds	**4,855**	4,199	**3,679**	3,983
Other debt securities	**3,054**	824	**50**	218
	13,370	8,632	**5,416**	5,313
Equity securities – quoted	**197**	136	**-**	-
	P 13,567	P 8,768	**P 5,416**	P 5,313

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P121, P37 and P440 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P167, P65 and (P17) in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements. These are included as part of Trading gain under Other Operating Income account in the statements of income (see Note 22).

Foreign currency-denominated securities amounted to P3,513 and P2,242 as of December 31, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P2,237 and P1,993 as of December 31, 2015 and 2014, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and liabilities are shown below.

BDO Unibank Group

	2015			2014		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	**P 141,033**	**P 705**	**P 310**	P 195,151	P 596	P 401
Cross currency swaps	**60,060**	**4,678**	**3,689**	62,196	2,918	2,040
Interest rate swaps	**33,594**	**78**	**132**	17,961	95	109
Republic of the Philippines (ROP) warrants	**15,021**	**-**	**36**	15,021	-	30
Others	**200**	**-**	**-**	-	-	-
	P 249,908	**P 5,461**	**P 4,167**	P 290,329	P 3,609	P 2,580

Parent Bank

	2015			2014		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	**P 136,280**	**P 683**	**P 303**	P 195,146	P 596	P 397
Interest rate swaps	**19,142**	**73**	**83**	11,849	91	84
Cross currency swaps	**18,641**	**931**	**771**	16,650	425	305
ROP warrants	**15,021**	**-**	**36**	15,021	-	30
	P 189,084	**P 1,687**	**P 1,193**	P 238,666	P 1,112	P 816

9.2 AFS Securities

AFS securities consist of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2015**	2014	**2015**	2014
Government debt securities		**P 137,181**	P 141,578	**P 127,344**	P 127,866
Other debt securities:					
Quoted		**68,071**	62,291	**60,327**	56,908
Not quoted		**243**	243	**243**	243
Equity securities:					
Quoted		**9,894**	9,993	**6,395**	6,460
Not quoted		**739**	812	**567**	574
		216,128	214,917	**194,876**	192,051
Allowance for impairment	14	**(3,936)**	(2,175)	**(3,792)**	(1,915)
		P 212,192	P 212,742	**P 191,084**	P 190,136

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Foreign currencies	**P 151,029**	P 154,132	**P 144,109**	P 147,136
Philippine peso	**61,163**	58,610	**46,975**	43,000
	P 212,192	P 212,742	**P 191,084**	P 190,136

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.0% to 11.6% in 2015 and 2014 and 0.0% to 13.0% in 2013 for BDO Unibank Group's financial statements while 1.6% to 11.6% in 2015, 0.0% to 11.6% in 2014 and 0.0% to 11.8% in 2013 in the Parent Bank's financial statements.

As of December 31, 2015 and 2014, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,048 and P1,027, respectively, in the Parent Bank financial statements. These investments are fully provided with allowance for impairment as of December 31, 2015 and 2014.

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

The fair values of government debt and quoted equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

For unquoted AFS securities, the fair value is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows. Accordingly, unquoted AFS securities are carried at cost.

Changes in AFS securities are presented below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 212,742**	P 218,162	**P 190,136**	P 203,833
Disposals	**(459,817)**	(380,568)	**(440,956)**	(370,443)
Additions	**455,074**	377,961	**437,205**	360,013
Foreign currency revaluation	**8,411**	1,119	**8,074**	1,081
Unrealized fair value losses	**(2,457)**	(2,440)	**(1,498)**	(2,846)
Impairment loss – net	**(1,761)**	(112)	**(1,877)**	(122)
Reclassification from AFS securities to Loans and other receivables	**-**	(1,380)	**-**	(1,380)
Balance at end of year	**P 212,192**	P 212,742	**P 191,084**	P 190,136

Government securities of the Parent Bank with an aggregate principal amount of P2,899 and P29,604 as of December 31, 2015 and 2014 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 29). These government securities were included in the reclassification from HTM investments in 2013 (see Note 9.3). BDO Unibank Group owned government securities with an aggregate principal amount of P4,745 and P31,574 as of December 31, 2015 and 2014 were pledged as collaterals for bills payable (see Notes 16 and 29).

As mentioned in Note 25, certain government debt securities are deposited with the BSP.

9.3 HTM Investments

In 2013, the BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39.

During 2013, the BDO Unibank Group and the Parent Bank disposed of previously classified HTM investments amounting to P47,182 and P40,413, respectively. The related trading gains on disposal recognized by BDO Unibank Group and the Parent Bank amounted to P7,907 and P7,425, respectively, and are presented as part of Trading gains under Other Operating Income account in the 2013 statement of income (see Note 22). As of December 31, 2015 and 2014, the market value of the remaining reclassified investments amounted to P9,335 and P20,430, respectively, for both the BDO Unibank Group and Parent Bank's financial statements.

9.4 Reclassification of Investment Securities

BDO Unibank Group recognized the deterioration of the world's financial markets that occurred in the third quarter of 2008. The enormity and extent of the global credit crisis was crystallized by the substantial government programs instituted by major economies in response to the crisis, including temporary liquidity facilities, outright purchase of commercial papers and mortgaged-backed securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

In 2008, BDO Unibank Group chose to avail of the regulatory relief on specific financial assets granted by the BSP under the governing provisions of Circular No. 628, which permitted the reclassification of certain financial assets to help banks cope with the adverse impact of the global financial crisis.

Accordingly, BDO Unibank Group reclassified in 2008 financial assets from FVTPL to HTM amounting to P6,297 and from AFS to HTM amounting to P25,540 (BDO Unibank Group) and P22,474 (Parent Bank). In 2013, BDO Unibank Group disposed all of its remaining financial assets at FVTPL reclassified to HTM. Moreover, as discussed in Note 9.3, BDO Unibank Group decided to reclassify its entire HTM investments to AFS securities, which include the financial assets previously coming from AFS securities. As of December 31, 2014, such financial assets had a carrying value of P222 and fair value of P228. In 2015, the remaining investments have already matured.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

		BDO Unibank Group		Parent Bank	
	Notes	**2015**	2014	**2015**	2014
Receivables from customers:					
Loans and discounts	24, 26	**P 1,185,248**	P 976,724	**P 1,135,543**	P 952,741
Customers' liabilities under letters of credit and trust receipts		**46,861**	51,547	**46,861**	51,547
Bills purchased		**8,693**	26,793	**8,653**	26,793
Others		**39,922**	35,985	**39,920**	35,985
		1,280,724	1,091,049	**1,230,977**	1,067,066
Unearned interests or discounts		**(1,372)**	(1,680)	**(151)**	(486)
Allowance for impairment	14	**(26,226)**	(26,752)	**(24,835)**	(26,226)
		(27,598)	(28,432)	**(24,986)**	(26,712)
		1,253,126	1,062,617	**1,205,991**	1,040,354
Other receivables:					
Interbank loans receivables		**51,979**	39,215	**51,979**	39,215
SPURRA		**69,490**	86,173	**58,431**	86,173
Accounts receivable	24, 31	**6,446**	17,840	**5,349**	9,554
UDSCL		**982**	6,671	**982**	6,671
Sales contract receivables		**2,091**	1,724	**1,938**	1,605
Others		**71**	110	**-**	-
		131,059	151,733	**118,679**	143,218
Allowance for impairment	14	**(1,433)**	(1,420)	**(1,359)**	(1,388)
		129,626	150,313	**117,320**	141,830
		P 1,382,752	P 1,212,930	**P 1,323,311**	P 1,182,184

Non-performing loans included in the total loan portfolio of BDO Unibank 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, which amends regulations governing non-performing loans.

	BDO Unibank Group		Parent Bank	
	2015	2014*	**2015**	2014*
NPL	**P 14,983**	P 16,298	**P 13,696**	P 15,898
Allowance for impairment	**(11,596)**	(15,010)	**(10,974)**	(14,777)
	P 3,387	P 1,288	**P 2,722**	P 1,121

** These loans are inclusive of the Receivable from Special Purpose Vehicles (SPVs) presented under Other Resources in the BDO Unibank Group and Parent Bank financial statements (see Note 13.4).*

Per MORB, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

The credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Wholesale and retail trade	**P 186,344**	P 161,425	**P 180,861**	P 158,622
Real estate activities	**184,770**	114,534	**178,859**	112,264
Financial and insurance activities	**169,064**	181,628	**166,885**	179,415
Manufacturing	**149,197**	137,676	**145,096**	134,201
Electricity, gas, steam and air-conditioning supply	**126,441**	103,584	**125,008**	101,667
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**112,751**	113,049	**110,557**	112,172
Transportation and storage	**55,067**	50,267	**51,290**	47,566
Accommodation and food service activities	**38,478**	32,834	**38,375**	32,827
Construction	**25,942**	23,196	**21,718**	19,955
Information and communication	**22,930**	25,462	**22,278**	24,897
Arts, entertainment and recreation	**18,308**	17,613	**15,636**	15,075
Professional, scientific and technical services	**17,409**	15,128	**17,191**	15,010
Agriculture, forestry and fishing	**14,702**	9,124	**11,318**	9,016
Balance carried forward	**P 1,121,403**	P 985,520	**P 1,085,072**	P 962,687

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance brought forward	**P 1,121,403**	P 985,520	**P 1,085,072**	P 962,687
Water supply, sewerage, waste management and remediation activities	**13,450**	13,987	**12,876**	13,411
Human health and social work activities	**11,497**	9,316	**10,651**	8,901
Mining and quarrying	**11,149**	6,669	**9,438**	4,542
Education	**9,773**	1,827	**2,376**	1,794
Administrative and support services	**6,794**	4,877	**6,028**	4,469
Public administrative and defense; compulsory social security	**257**	322	**116**	303
Activities of extraterritorial organizations and bodies	**28**	53	**28**	53
Other service activities	**105,001**	66,798	**104,241**	70,420
	P 1,279,352	P 1,089,369	**P 1,230,826**	P 1,066,580

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Secured:				
Real estate mortgage	**P 152,253**	P 170,485	**P 147,194**	P 169,204
Chattel mortgage	**78,359**	81,889	**60,498**	67,048
Other securities	**103,387**	151,066	**101,992**	144,978
	333,999	403,440	**309,684**	381,230
Unsecured	**945,353**	685,929	**921,142**	685,350
	P 1,279,352	P 1,089,369	**P 1,230,826**	P 1,066,580

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to type of interest rate follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Variable interest rates	**P 948,711**	P 812,322	**P 927,309**	P 800,316
Fixed interest rates	**330,641**	277,047	**303,517**	266,264
	P 1,279,352	P 1,089,369	**P 1,230,826**	P 1,066,580

Loans and receivables bear annual interest rates of 0.0% (e.g., non-performing loans and zero percent credit card installment program) to 4.0%, 4.1% and 4.0% per month in 2015, 2014 and 2013, respectively.

BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P1,977 and P7, respectively, as of December 31, 2015 and P908 and P91, respectively, as of December 31, 2014 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 29).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014 are shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
December 31, 2015						
Cost	P 6,027	P 248	P 14,681	P 4,621	P 18,778	P 44,355
Accumulated depreciation and amortization	-	-	(4,230)	(2,993)	(11,625)	(18,848)
Allowance for impairment	(137)	-	(375)	-	-	(512)
Net carrying amount	**P 5,890**	**P 248**	**P 10,076**	**P 1,628**	**P 7,153**	**P 24,995**
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,390	P 3,996	P 15,415	P 37,256
Accumulated depreciation and amortization	-	-	(3,610)	(2,671)	(9,450)	(15,731)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	P 5,179	P 4,244	P 4,380	P 1,325	P 5,965	P 21,093
January 1, 2014						
Cost	P 5,114	P 2,382	P 7,865	P 3,464	P 15,471	P 34,296
Accumulated depreciation and amortization	-	-	(3,185)	(2,288)	(10,552)	(16,025)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
Parent Bank						
December 31, 2015						
Cost	P 5,287	P 248	P 13,849	P 4,360	P 14,132	P 37,876
Accumulated depreciation and amortization	-	-	(3,967)	(2,816)	(9,447)	(16,230)
Allowance for impairment	(123)	-	(371)	-	-	(494)
Net carrying amount	**P 5,164**	**P 248**	**P 9,511**	**P 1,544**	**P 4,685**	**P 21,152**
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,332	P 3,789	P 12,188	P 33,764
Accumulated depreciation and amortization	-	-	(3,563)	(2,528)	(8,324)	(14,415)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	P 5,179	P 4,244	P 4,369	P 1,261	P 3,864	P 18,917
January 1, 2014						
Cost	P 5,114	P 2,382	P 7,806	P 3,273	P 13,107	P 31,682
Accumulated depreciation and amortization	-	-	(3,140)	(2,164)	(9,690)	(14,994)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325

A reconciliation of the carrying amounts, at the beginning and end of 2015 and 2014, of premises, furniture, fixtures and equipment is shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
Balance at January 1, 2015, net of accumulated depreciation and amortization and impairment	P 5,179	P 4,244	P 4,380	P 1,325	P 5,965	P 21,093
Additions	798	258	1,962	480	3,465	6,963
Disposals	-	-	(60)	(13)	(63)	(136)
Reclassifications	(78)	(4,254)	4,258	318	43	287
Depreciation and amortization charges for the year	-	-	(464)	(482)	(2,257)	(3,203)
Reversal of appraisal increment	(9)	-	-	-	-	(9)
Balance at December 31, 2015, net of accumulated depreciation, amortization and impairment	**P 5,890**	**P 248**	**P 10,076**	**P 1,628**	**P 7,153**	**P 24,995**
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
Additions	99	1,856	466	565	2,984	5,970
Disposals	(2)	-	-	(5)	(117)	(124)
Reclassifications		6	(4)	3	1	6
Depreciation and amortization changes for the year	-	-	(362)	(414)	(1,822)	(2,598)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation, amortization and impairment	P 5,179	P 4,244	P 4,380	P 1,325	P 5,965	P 21,093
Parent Bank						
Balance at January 1, 2015, net of accumulated depreciation and amortization and impairment	P 5,179	P 4,244	P 4,369	P 1,261	P 3,864	P 18,917
Additions	72	258	1,384	426	2,299	4,439
Disposals	-	-	(60)	(13)	(10)	(83)
Reclassifications	(78)	(4,254)	4,258	318	47	291
Depreciation and amortization charges for the year	-	-	(440)	(448)	(1,515)	(2,403)
Reversal of appraisal increment	(9)	-	-	-	-	(9)
Balance at December 31, 2015, net of accumulated depreciation, amortization and impairment	**P 5,164**	**P 248**	**P 9,511**	**P 1,544**	**P 4,685**	**P 21,152**
Balance at January 1, 2014, net of accumulated depreciation and amortization and impairment	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325
Additions	99	1,856	466	535	1,756	4,712
Disposals	(2)	-	-	(4)	(10)	(16)
Reclassifications	-	6	(4)	4	(1)	5
Depreciation and amortization charges for the year	-	-	(359)	(383)	(1,298)	(2,040)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation, amortization and impairment	P 5,179	P 4,244	P 4,369	P 1,261	P 3,864	P 18,917

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2015 and 2014, BDO Unibank Group has complied with this requirement.

In 2015 and 2014, reversal of appraisal increment and impairment losses amounting to P9 and P69, respectively, was recognized by BDO Unibank Group and the Parent Bank to write-down to recoverable amount certain parcels of land and buildings. The recoverable amount of Land and Building as of December 31, 2015 and 2014, respectively, was based on the appraised values of such asset.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2015 and 2014 are still being used in operations with acquisition costs amounting to P6,517 and P5,068, respectively for BDO Unibank Group' and P5,906 and P4,959, respectively, for Parent Bank.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P217 and P72 in 2015, P228 and P76 in 2014, P214 and P77 in 2013 and are presented as part of Income from assets sold or exchanged under Other Operating Income account in BDO Unibank Group and Parent Bank financial statements, respectively (see Note 22). Direct expenses incurred from these properties amounted to P2 and P2 in 2015, P3 and P3 in 2014 and P10 and P4 in 2013 in BDO Unibank Group's and Parent Bank's financial statements, respectively.

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2015 and 2014 are shown below.

BDO Unibank Group	Land	Buildings	Total
December 31, 2015			
Cost	P 10,008	P 9,494	P 19,502
Accumulated depreciation	-	(2,564)	(2,564)
Allowance for impairment (see Note 14)	(2,205)	(100)	(2,305)
Net carrying amount	**P 7,803**	**P 6,830**	**P 14,633**
December 31, 2014			
Cost	P 10,484	P 8,139	P 18,623
Accumulated depreciation	-	(2,339)	(2,339)
Allowance for impairment (see Note 14)	(2,291)	(132)	(2,423)
Net carrying amount	P 8,193	P 5,668	P 13,861
January 1, 2014			
Cost	P 8,966	P 5,829	P 14,795
Accumulated depreciation	-	(2,048)	(2,048)
Allowance for impairment (see Note 14)	(2,287)	(79)	(2,366)
Net carrying amount	P 6,679	P 3,702	P 10,381

Parent Bank	Land	Buildings	Total
December 31, 2015			
Cost	P 8,602	P 7,340	P 15,942
Accumulated depreciation	-	(2,328)	(2,328)
Allowance for impairment (see Note 14)	(2,155)	(56)	(2,211)
Net carrying amount	**P 6,447**	**P 4,956**	**P 11,403**
December 31, 2014			
Cost	P 9,217	P 6,099	P 15,316
Accumulated depreciation	-	(2,140)	(2,140)
Allowance for impairment (see Note 14)	(2,230)	(88)	(2,318)
Net carrying amount	P 6,987	P 3,871	P 10,858
January 1, 2014			
Cost	P 7,882	P 3,825	P 11,707
Accumulated depreciation	-	(1,921)	(1,921)
Allowance for impairment (see Note 14)	(2,233)	(35)	(2,268)
Net carrying amount	P 5,649	P 1,869	P 7,518

A reconciliation of the carrying amounts, at the beginning and end of 2015 and 2014, of investment properties is shown below.

BDO Unibank Group	Land	Buildings	Total
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 8,193	P 5,668	P 13,861
Additions	1,392	1,896	3,288
Disposals	(1,853)	(196)	(2,049)
Reclassifications	71	(108)	(37)
Depreciation for the year	-	(430)	(430)
Balance at December 31, 2015, net of accumulated depreciation and impairment	**P 7,803**	**P 6,830**	**P 14,633**
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 6,679	P 3,702	P 10,381
Additions	1,370	1,178	2,548
Disposals	(1,020)	(151)	(1,171)
Reclassifications	1,164	1,390	2,554
Depreciation for the year	-	(451)	(451)
Balance at December 31, 2014, net of accumulated depreciation and impairment	P 8,193	P 5,668	P 13,861

Parent Bank	Land	Buildings	Total
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 6,987	P 3,871	P 10,858
Additions	1,137	1,779	2,916
Disposals	(1,739)	(196)	(1,935)
Reclassifications	62	(108)	(46)
Depreciation for the year	-	(390)	(390)
Balance at December 31, 2015, net of accumulated depreciation and impairment	**P 6,447**	**P 4,956**	**P 11,403**
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 5,649	P 1,869	P 7,518
Additions	1,366	1,177	2,543
Disposals	(1,011)	(143)	(1,154)
Reclassification	983	1,366	2,349
Depreciation for the year	-	(398)	(398)
Balance at December 31, 2014, net of accumulated depreciation and impairment	P 6,987	P 3,871	P 10,858

The fair value of investment properties as of December 31, 2015 and 2014, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P24,473 and P22,509, respectively, for BDO Unibank Group accounts and P21,242 and P19,506, respectively, for the Parent Bank accounts. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

In 2013, BDO Unibank Group recognized impairment losses of P8 to write-down certain investment properties to its recoverable amount and is presented as part of Impairment Losses account in the 2013 statement of income (nil in 2014 and 2015). The recoverable amount of such assets as of December 31, 2015 and 2014 was based on value in use computed through discounted cash flows method at an effective rate of 1.45% and 1.48% in 2015 and 2014, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, non-current assets held for sale, AFS securities or other resources. As of December 31, 2015 and 2014, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Investment properties	**P 8,711**	P 9,865	**P 8,425**	P 9,554
AFS securities	**857**	1,424	**857**	1,424
Non-current assets held for sale	**567**	501	**558**	473
	P 10,135	P 11,790	**P 9,840**	P 11,451

13. OTHER RESOURCES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2015**	2014	**2015**	2014
Deferred tax assets – net	27.1	**P 6,079**	P 6,033	**P 6,068**	P 6,213
Equity investments	13.1	**5,741**	5,891	**23,718**	17,027
Deposits under escrow	13.2	**5,226**	3,957	**5,226**	3,957
Goodwill	13.3, 26.1	**4,399**	1,482	**1,391**	1,391
Foreign currency notes and coins on hand		**3,244**	3,406	**3,243**	3,406
Branch licenses	13.3, 26.5, 26.6	**3,020**	3,020	**3,020**	3,020
Margin deposits		**1,776**	289	**5**	1
Real properties for development and sale		**1,760**	2,224	**-**	-
Retirement benefit asset	23.2	**1,355**	1,211	**1,237**	1,184
Computer software – net		**1,067**	779	**934**	688
Non-current assets held for sale	13.5	**567**	501	**558**	473
Customer list – net	26.8	**502**	529	**502**	529
Prepaid documentary stamps		**482**	460	**454**	438
Interoffice float items – net		**123**	-	**121**	-
Dividend receivable		**118**	283	**2,481**	245
Returned checks and other cash items		**112**	223	**111**	223
Receivables from SPVs	13.4	**5**	2,820	**5**	2,820
Others	13.6	**10,718**	10,563	**9,835**	9,752
		46,294	43,671	**58,909**	51,367
Allowance for impairment	14	**(2,553)**	(5,921)	**(4,824)**	(8,520)
		P 43,741	P 37,750	**P 54,085**	P 42,847

13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group		Parent Bank	
		2015	2014	**2015**	2014
Philippine Subsidiaries					
ONB	99.63%	**P -**	P -	**P 6,687**	P -
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	88.54%	**-**	-	**1,878**	1,878
BDO Savings	99.99%	**-**	-	**877**	877
BDO Elite	98.82%	**-**	-	**700**	700
BDO Capital	100%	**-**	-	**300**	300
Equimark	60.00%	**-**	-	**5**	45
PCIB Securities, Inc.	100%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
PCI Insurance	100%	**-**	-	**8**	8
		-	-	**18,802**	12,155
Foreign Subsidiaries					
BDORO	100%	**-**	-	**169**	169
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
BDO Remit (Japan) Ltd.	100%	**-**	-	**30**	4
PCIB Europe S.p.A.	100%	**-**	-	**1**	1
Express Padala Frankfurt GmbH	100%	**-**	-	**1**	1
BDO Remit (Canada) Ltd.	100%	**-**	-	**18**	-
		-	-	**273**	229
Associates					
SM Keppel Land, Inc. (SM Keppel)	50.00%	**1,658**	1,658	**1,658**	1,658
Manila North Tollways Corporation (MNTC)	12.40%	**1,405**	1,405	**1,405**	1,405
Generali Pilipinas Holdings, Inc. (Generali)	40.00%	**1,235**	1,235	**1,168**	1,168
Northpine Land Incorporated	20.00%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
Others	*	**10**	10	**10**	10
		4,710	4,710	**4,643**	4,643
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,181**	688	**-**	-
Equity in net profit		**837**	652	**-**	-
Equity in other comprehensive income (loss)		**(356)**	269	**-**	-
Reclassification		**(501)**	-	**-**	-
Dividends		**(130)**	(428)	**-**	-
Balance at end of year		**1,031**	1,181	**-**	-
Net investments in associates		**5,741**	5,891	**4,643**	4,643
		5,741	5,891	**23,718**	17,027
Allowance for impairment		**(39)**	(559)	**(2,850)**	(3,749)
		P 5,702	P 5,332	**P 20,868**	P 13,278

** This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2015 and 2014, except for Generali, which is at 40% at BDO Unibank Group and 38.05% at the Parent Bank, and for BDO Leasing which is at 88.54% at BDO Unibank Group and 87.43% at the Parent Bank.

The fair value of BDO Leasing amounts to P4,691 and P4,117 in 2015 and 2014, respectively, which have been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
Express Padala Frankfurt GmbH	Germany
PCIB Europe S.p.A	Italy
BDORO Europe Ltd.	United Kingdom
BDO Remit (Italia) S.p.A	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited	Hongkong
BDO Remit (Macau) Ltd.	Macau

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO has applied for a banking license in the UK, but the approval is still pending as of December 31, 2015. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established.

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business. Gain from acquisition amounted to P43 and is presented as part of Miscellaneous under Other Operating Income account in the 2014 statement of income of BDO Unibank Group (see Note 22).

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 26.5).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan. BDO Remit (Japan) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. In 2015, the Parent Bank paid CND500,000 for the subscribed shares.

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant NCI:

	Proportion of ownership interest and voting rights held by NCI		Profit allocated to NCI		Accumulated NCI	
Name	**2015**	2014	**2015**	2014	**2015**	2014
BDO Leasing	**11.46%**	11.46%	**P 64**	P 57	**P 598**	P 571

Dividends amounting to P43 and P37 were paid to the NCI in 2015 and 2014, respectively.

Summarized consolidated financial information of BDO Leasing, before intragroup eliminations, follows:

	2015	2014
Statements of financial position:		
Total resources	**P 34,547**	P 29,239
Total liabilities	**29,331**	24,255
Equity attributable to owners of the parent	**4,618**	4,413
Non-controlling interest	**598**	571
Statements of comprehensive income:		
Total interest income	**1,567**	1,448
Total other operating income	**1,039**	827
Profit attributable to owners of the parent	**493**	445
Profit attributable to NCI	**64**	57
Profit	**557**	502
Total comprehensive income attributable to owners of the parent	**539**	477
Total comprehensive income attributable to NCI	**70**	62
Total comprehensive income	**P 609**	P 539
Statements of cash flows:		
Net cash used in operating activities	**(P 1,847)**	(P 948)
Net cash used in investing activities	**(2,059)**	(1,664)
Net cash from financing activities	**3,824**	2,892
Net cash inflow	**(P 82)**	P 280

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2015, 2014 and 2013:

	MNTC	Generali	SM Keppel	Others	Total
December 31, 2015 (Unaudited)					
Assets	**P 30,687**	**P 22,975**	**P 2,643**	**P 2,478**	**P 58,783**
Liabilities	**22,586**	**19,009**	**369**	**723**	**42,687**
Equity	**8,101**	**3,966**	**2,274**	**1,755**	**16,096**
Revenues	**8,708**	**7,183**	**177**	**825**	**16,893**
Net profit	**2,949**	**1,102**	**23**	**106**	**4,180**
December 31, 2014 (Audited)					
Assets	P 28,715	P 19,220	P 2,493	P 2,051	P 52,479
Liabilities	21,087	15,487	241	367	37,182
Equity	7,628	3,733	2,252	1,684	15,297
Revenues	10,129	5,985	187	677	16,978
Net profit	2,565	851	16	100	3,532
December 31, 2013 (Audited)					
Assets	P 20,788	P 15,844	P 2,464	P 2,024	P 41,120
Liabilities	13,589	13,550	228	416	27,783
Equity	7,199	2,294	2,236	1,608	13,337
Revenues	7,640	5,129	267	618	13,654
Net profit	2,378	686	71	80	3,215

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by BDO Unibank Group in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by BDO Unibank Group with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. Deposits under escrow earned a return on investment of 1.4% and 1.3% in 2015 and 2014, respectively. In 2015, BDO Unibank Group recognized accrued income amounting to P1,269 which is presented as part of Miscellaneous under Other Operating Income account in the 2015 statement of income (see Note 22). As of December 31, 2015 and 2014, BDO Unibank Group and Parent Bank provided an allowance for impairment both amounting to P400.

13.3 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition including branch licenses and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc. (RBSJI), CBN Grupo, BDO Savings and ONB which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, and 2015 respectively (see Note 26).

The Parent Bank recognized impairment loss of P4, P62 and P230 in 2015, 2014 and 2013, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The recoverable amount as of December 31, 2015 and 2014 is based on the value in use computed through discounted cash flows method at an effective interest of 5.45% and 3.93%, which amounted to P3,742 and P2,308, respectively. The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the consolidated financial statements, except those related to the Parent Bank.

13.4 Receivables from SPVs

Receivables from SPVs represent the amount due from sale of certain non-performing assets to SPVs. In 2005, the former EPCIB (now part of BDO Unibank Group) sold certain non-performing assets with book value of P15,069 to Philippine Investment One, Philippine Investment Two and Cameron Granville Asset Management, Inc. (CGAM) for a consideration of P4,134. Cash received from the SPVs amounted to P798 in 2005 and the balance of P3,336, through issuance of SPV Notes, shall be paid based on a cash flow waterfall arrangement and interest rate of 20% and 50% per annum amounting to P2,776 and P560, respectively. Also, in 2005, the former Equitable Savings Bank, Inc. (ESB) entered into sale and purchase agreements with CGAM and LNC (SPV-AMC) Corporation (LNC) for the sale of the former ESB's loans to CGAM for P621 and for the sale of its investment properties to LNC for P98. The former ESB received SPV Notes amounting to P60 for loans from CGAM and P39 for investment properties from LNC, in addition to cash received amounting to P23 from CGAM and P4 from LNC.

Full allowance for impairment on the receivables from SPVs amounted to P5 and P2,820 as of December 31, 2015 and 2014, respectively. In 2015 and 2014, the Parent Bank wrote-off receivable from SPVs amounting to P2,815 and P620, respectively, since the management has evaluated that those receivables are no longer recoverable.

13.5 Non-current Assets Held for sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. Impairment loss recognized amounted to P34 in 2013 in BDO Unibank Group (nil in 2015 and 2014) and nil in Parent Bank in 2013 to 2015.

13.6 Others

Amortization expense on computer software licenses amounted to P285, P206 and P135 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P249, P196 and P128 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 22).

Depreciation expense on certain assets amounting to P43, P7 and P32 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P43, P6 and P9 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements, and are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 22).

In 2015, the Parent Bank recognized impairment loss amounting to P26 to write-down the value of Customer list account to its recoverable amount (nil in 2014). The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 26.8).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2015**	2014	**2015**	2014
Balance at beginning of year:					
AFS securities	9.2	**P 2,175**	P 2,063	**P 1,915**	P 1,793
Loans and other receivables	10	**28,172**	26,580	**27,614**	26,119
Bank premises	11	**432**	363	**432**	363
Investment properties	12	**2,423**	2,366	**2,318**	2,268
Other resources	13	**5,921**	6,695	**8,520**	9,213
		39,123	38,067	**40,799**	39,756
Impairment losses - net		**2,974**	5,114	**2,683**	5,014
Business combination		**752**	276	**-**	237
Adjustments		**(592)**	(34)	**(965)**	-
Write-offs		**(5,456)**	(4,222)	**(5,188)**	(4,222)
Reversals		**(25)**	(93)	**-**	-
Foreign currency revaluation		**189**	15	**186**	14
Balance at end of year:					
AFS securities	9.2	**3,936**	2,175	**3,792**	1,915
Loans and other receivables	10	**27,659**	28,172	**26,194**	27,614
Bank premises	11	**512**	432	**494**	432
Investment properties	12	**2,305**	2,423	**2,211**	2,318
Other resources	13	**2,553**	5,921	**4,824**	8,520
		P 36,965	P 39,123	**P 37,515**	P 40,799

Total impairment losses on financial assets amounted to P2,970, P5,052 and P5,968 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P2,679, P4,952 and P5,850 in 2015, 2014 and 2013, respectively, in the Parent Bank financial statements.

Total impairment losses on non-financial assets amounted to P4, P62 and P1,033 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P4, P62 and P366 in 2015, 2014 and 2013, respectively, in the Parent Bank financial statements.

In 2015, total allowance for impairment transferred upon consolidation of ONB amounted to P752. In 2014, total allowance for impairment transferred upon consolidation of BDO Savings and the asset acquisition of The Real Bank, Inc. amounted to P79 and P197, respectively, for BDO Unibank Group's financial statements and P40 and P197, respectively, in the Parent Bank's financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Demand	**P 104,066**	P 85,807	**P 67,808**	P 60,384
Savings	**1,033,652**	872,976	**1,025,873**	874,731
Time	**526,135**	533,499	**509,366**	528,974
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Due to other banks:				
Demand	**P 1,575**	P 1,126	**P 1,567**	P 1,126
Savings	**4,441**	4,561	**4,438**	4,561
Time	**984**	5,626	**984**	5,626
	7,000	11,313	**6,989**	11,313
Due to customers:				
Demand	**102,491**	84,681	**66,241**	59,258
Savings	**1,029,211**	868,415	**1,021,435**	870,170
Time	**525,151**	527,873	**508,382**	523,348
	1,656,853	1,480,969	**1,596,058**	1,452,776
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Philippine pesos	**P 1,347,327**	P 1,200,473	**P 1,296,769**	P 1,179,436
Foreign currencies	**316,526**	291,809	**306,278**	284,653
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Less than one year	**P 1,534,073**	P 1,381,664	**P 1,478,876**	P 1,357,498
One to five years	**55,013**	47,868	**49,884**	43,841
Beyond five years	**74,767**	62,750	**74,287**	62,750
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0.0% to 5.3% in 2015, 2014 and 2013. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates.

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2015 and 2014 as follows:

		Outstanding Balance			
BSP Approval	Effective Rate	**2015**	2014	Issue Date	Maturity Date
July 10, 2014	3.75%	**P 7,500**	P -	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**5,000**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	**5,000**	5,000	September 12, 2013	September 12, 2020
January 31, 2013	3.80%	**5,000**	5,000	March 25, 2013	September 25, 2018
May 3, 2012	5.25%	**5,000**	5,000	October 15, 2012	October 15, 2019
		P 27,500	P 20,000		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective May 30, 2014, Philippine Peso deposit liabilities and LTNCD of BDO Unibank Group are subject to a reserve requirement of 20% and 7%, respectively, in compliance with the BSP Circular No. 832 issued on May 27, 2014 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		**Parent Bank**	
	Notes	**2015**	2014	**2015**	2014
Foreign banks	16.1	**P 38,844**	P 29,857	**P 38,844**	P 29,857
Senior notes	16.2	**28,555**	27,111	**28,555**	27,111
Local banks		**8,153**	3,550	**-**	-
Deposit substitutes		**570**	22,779	**570**	22,779
BSP		**-**	51	**-**	51
Others		**21,421**	17,013	**8,898**	5,271
		P 97,543	P 100,361	**P 76,867**	P 85,069

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Foreign currencies	**P 76,865**	P 85,000	**P 76,843**	P 85,000
Philippine pesos	**20,678**	15,361	**24**	69
	P 97,543	P 100,361	**P 76,867**	P 85,069

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
One to three months	**P 35,927**	P 50,926	**P 16,664**	P 37,239
More than three months to one year	**16,285**	1,224	**15,780**	239
More than one to three years	**44,123**	46,881	**43,215**	46,261
More than three years	**1,208**	1,330	**1,208**	1,330
	P 97,543	P 100,361	**P 76,867**	P 85,069

Bills payable bear annual interest rates of 0.1% to 12.0% in 2015 and 0.2% to 12.0% in 2014 and 2013. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9 and 10).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 21):

	BDO Unibank Group		
	2015	2014	2013
Senior notes	**P 1,166**	P 1,139	P 1,086
Foreign banks	**335**	250	142
Local banks	**165**	97	130
Deposit substitutes	**27**	29	70
BSP	**-**	1	26
Others	**490**	402	288
	P 2,183	P 1,918	P 1,742

	Parent Bank		
	2015	2014	2013
Senior notes	**P 1,166**	P 1,139	P 1,086
Foreign banks	**335**	250	140
Deposit substitutes	**27**	29	70
Local banks	**-**	8	15
BSP	**-**	1	26
Others	**178**	117	114
	P 1,706	P 1,544	P 1,451

16.1 Foreign Banks

In 2015, the Bank borrowed $500 through a term loan facility from a syndicate of foreign banks. This transaction was a combination of a re-financing of an existing loan of $350 and an increase in the transaction amount to $500 for general financing purposes. The loan facility has a 3-year tenor with a floating interest rate payable quarterly. As of December 31, 2015, the related syndicated term loan have outstanding balance of P23,335, net of related debt transaction costs.

16.2 Senior Notes

On February 16, 2012, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.448 or a total price of US$298. This Senior Notes, which will mature on February 16, 2017, bear a coupon rate of 4.5% per annum, with effective yield of 4.625% per annum, and is payable semi-annually every February 16 and August 16 since August 16, 2012. The net proceeds from the issuance of Senior Notes are intended for general funding and relending purposes. As of December 31, 2015 and 2014, the related Senior Notes had a carrying amount of P14,337 and P13,609, respectively.

On October 22, 2010, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.632 or a total price of US$299. This Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and is payable semi-annually every April 22 and October 22 since 2011. The net proceeds from the issuance are intended to support business expansion plans, and general banking and relending activities. As of December 31, 2015 and 2014, the related Senior Notes had a carrying amount of P14,218 and P13,502, respectively.

Interest on Senior Notes amounted to P1,166 in 2015, P1,139 in 2014 and P1,086 in 2013 and is included as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 21).

17. SUBORDINATED NOTES PAYABLE

Subordinated notes payable by the Parent Bank consist of the following as of December 31:

	Coupon Interest	Principal Amount	Outstanding Balance 2015	Outstanding Balance 2014	Issue Date	Maturity Date	Redemption Date
Tier 2 Series 1	7.00%	P 10,000	**P -**	P -	November 21, 2007	November 21, 2017	November 21, 2012
Tier 2 Series 2	8.50%	10,000	**-**	-	May 30, 2008	May 30, 2018	May 31, 2013
Tier 2 Series 3	7.50%	3,000	**-**	-	March 20, 2009	March 20, 2019	March 21, 2014
Tier 2 Series 4	6.50%	8,500	**-**	-	June 27, 2011	September 27, 2021	September 27, 2013
Tier 2 Series 5	6.38%	6,500	**-**	-	October 7, 2011	January 7, 2022	October 7, 2013
Tier 2 Series 2014-1	5.19%	10,000	**10,030**	10,030	December 10, 2014	March 10, 2025	-
		P 48,000	**P 10,030**	P 10,030			

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The redemption of Series 1, Series 2 and Series 3 Notes was approved by the BSP on September 27, 2012, April 4, 2013 and November 28, 2013, respectively. The early redemption of the Series 4 and Series 5 Notes was approved by the BSP on July 11, 2013.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519, P80 and P1,305 in 2015, 2014 and 2013, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 21).

18. OTHER LIABILITIES

Other liabilities consist of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2015**	2014	**2015**	2014
Accounts payable		**P 13,208**	P 19,504	**P 11,776**	P 10,758
Manager's checks		**11,809**	11,620	**11,703**	11,570
Bills purchased – contra		**8,592**	26,670	**8,592**	26,670
Accrued expenses		**8,441**	7,473	**7,917**	7,012
Lease deposits		**5,087**	4,271	**98**	74
Derivatives with negative fair values	9.1	**4,167**	2,580	**1,193**	816
Outstanding acceptances payable		**1,762**	1,781	**1,762**	1,781
Withholding taxes payable		**1,386**	1,347	**1,293**	1,281
Capitalized interest and other charges		**385**	403	**344**	371
Due to principal		**375**	415	**-**	-
Due to BSP and Treasurer of the Philippines		**81**	69	**78**	65
Unearned income		**2**	1	**-**	-
Others		**4,920**	5,173	**4,614**	4,960
		P 60,215	P 81,307	**P 49,370**	P 65,358

The liability for unredeemed reward points amounting to P2,488 and P2,803 as of December 31, 2015 and 2014, respectively, presented as part of Accrued expenses (refer to table on preceding page) represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.20).

Others include margin deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P7, P8 and P10 in 2015, 2014 and 2013, respectively, both in BDO Unibank Group and Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 21).

19. EQUITY

19.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the implementation of ICAAP from January 2010 to January 2011.

In October 2009, BDO Unibank Group presented its ICAAP and submitted the initial draft of its ICAAP document to the BSP. Based on comments from the BSP, BDO Unibank Group subsequently revised its ICAAP document and secured approval from its BOD on January 8, 2011. Annually as required, BDO Unibank Group submits its updated ICAAP to the BSP.

The ICAAP document articulates BDO Unibank Group's capital planning strategy and discusses governance, risk assessment, capital assessment and planning, capital adequacy monitoring and reporting, as well as internal control reviews.

The lead regulator of the banking industry, the BSP, sets and monitors capital requirements for BDO Unibank Group. In implementing current capital requirements, the BSP requires BDO Unibank Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires BDO Unibank Group to maintain:

(a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;

(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;

(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,

(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET 1 Capital.

The regulatory capital is analyzed as CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

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

BDO Unibank Group's policy is to maintain a strong capital base to promote investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, BDO Unibank Group and the Parent Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Under an existing BSP circular, expanded commercial banks with more than 100 branches are required to comply with the minimum capital requirement of P20,000. As at December 31, 2015 and 2014, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs have a higher share of their statements of financial position funded by instruments which increase their resilience as a going concern. The HLA requirement is to be met with Common Equity Tier 1 (CET 1) capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.50% to 3.50%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019.

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2015 and 2014 follows:

	2015	
	BDO Unibank Group	**Parent Bank**
Tier 1 Capital		
CET 1	**P 191,489**	**P 184,534**
Additional Tier 1	**5,150**	**5,150**
	196,639	**189,684**
Tier 2 Capital	**24,612**	**23,815**
Total Regulatory Capital	**221,251**	**213,499**
Deductions	**(20,776)**	**(40,766)**
Total Qualifying Capital	**P 200,475**	**P 172,733**
Total Risk-Weighted Assets	**P 1,503,291**	**P 1,412,906**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**13.3%**	**12.2%**
Tier 1 Capital Ratio	**11.7%**	**10.5%**
Total CET 1 Ratio	**11.4%**	**10.2%**

	2014	
	BDO Unibank Group	Parent Bank
Tier 1 Capital		
CET 1	P 174,240	P 165,659
Additional Tier 1	5,150	5,150
	179,390	170,809
Tier 2 Capital	22,465	21,875
Total Regulatory Capital	201,855	192,684
Deductions	(18,565)	(35,534)
Total Qualifying Capital	P 183,290	P 157,150
Total Risk-Weighted Assets	P 1,273,121	P 1,203,832
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.4%	13.1%
Tier 1 Capital Ratio	12.6%	11.2%
Total CET 1 Ratio	12.2%	10.8%

19.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2015	2014	**2015**	2014
Common shares – P10 par value				
Authorized – 4,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of year	**3,580,875,328**	3,580,875,328	**P 35,808**	P 35,808
Issued during the year	**64,499,890**	-	**645**	-
Balance at end of year	**3,645,375,218**	3,580,875,328	**P 36,453**	P 35,808
Preferred shares – P10 par value				
Authorized – 2,000,000,000 shares				
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150

19.2.1 Preferred Shares

The following are the features of the BDO Unibank Group's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

19.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
			3,645,375,218

As of December 31, 2015, there are 12,835 holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P105 per share as of December 29, 2015 (the last trading day in 2015).

19.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base.

ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

As of December 31, 2015, 200 ADRs valued at US$4,346 (absolute amount) remained outstanding (computed using ADR closing price of US$21.73/share). There is no outstanding ADR as of December 31, 2014.

19.4 Termination of Global Depositary Receipts by Primebridge

On various dates in 2006, Primebridge Holdings, Inc. (Primebridge), a stockholder owning 22.1% of the Parent Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 global depositary receipts (GDRs) with each GDR representing 20 shares of the Parent Bank's common shares.

The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance to Rule 144A under the U.S. Securities Act of 1993 (the Securities Act) and an offering outside the U.S. in reliance to Regulation under the Securities Act. The offer price for each GDR was US$12.70 on January 25, 2006 and February 14, 2006; and US$14.55 on May 15, 2006. The GDRs are listed and are traded at the London Stock Exchange.

As part of the offering, Primebridge, while remaining as the registered holder of the Parent Bank's shares underlying the GDRs, transferred all rights and interests in the Parent Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter are entitled to receive dividends paid on the shares. However, GDR holders have no voting rights or other direct rights of a shareholder with respect to the Parent Bank's shares.

Given the low trading activity for GDRs as well as the increase in float levels since 2006 when the program was established, the Parent Bank terminated the GDR program. Bank of New York (BNY) Mellon, as Depositary, subsequently received a Notice of Termination from BDO to terminate the GDR facility effective May 13, 2013.

With the termination of the program, BNY Mellon sold all remaining deposited securities representing the outstanding GDRs of BDO. On June 18, 2013, the remaining GDR holders were mandated to surrender their GDRs to BNY Mellon for cancellation and exchange in order to receive the cash proceeds from the sale of the deposited securities as follows:

Gross Rate per Depositary Shares:	US$	44.899
Cancellation Fee:		0.050
Net Rate per Depositary Shares:	US$	44.849

The cash distribution by BNY Mellon to the remaining GDR holders effectively completed the GDR termination process. Subsequently, the GDRs were delisted from the London Stock Exchange.

19.5 Surplus Free

On February 25, 2015, the BOD of BDO Leasing approved the declaration of cash dividends at P0.175 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P378. The dividends were declared to stockholders of record as of March 11, 2015 and payable on March 24, 2015, of which, total dividends paid to non-controlling interest amounted to P43.

On January 31, 2015, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. BSP approval was obtained on March 5, 2015 and the dividends were paid on April 15, 2015.

On January 10, 2015, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2014 earnings. On April 24, 2015, the Parent Bank's BOD also declared special cash dividend of P0.90 per share. Total dividends are P2.10 per share or P7,559. The dividends for the 2014 earnings and the special cash dividends were approved by the BSP on March 5, 2015 and June 10, 2015, respectively. All related dividends declared were paid in 2015.

On June 11, 2014, the BOD of Equimark approved the declaration of cash dividends at P22.67 per share on 750,000 shares outstanding or a total of P17 to be paid to all stockholders of record as of December 31, 2013 and payable on June 27, 2014. Total dividends paid to non-controlling interests amounted to P7.

On February 26, 2014, the BOD of BDO Leasing approved the declaration of cash dividends at P0.15 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P324. The dividends were declared to stockholders of record as of March 13, 2014 and payable on March 31, 2014, of which, total dividends paid to non-controlling interest amounted to P37.

On January 25, 2014, the Parent Bank's BOD approved the declaration of cash dividends on preferred shares at a rate of 6.5% of par value or P339. This was approved by the BSP on February 13, 2014 and was paid on March 11, 2014.

On January 4, 2014, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2013 earnings. On April 25, 2014, the Parent Bank's BOD also declared quarterly cash dividend of P0.30 per share representing dividends beginning the second quarter of 2014. Total dividends are P2.10 per share or P7,520. The dividends for the 2013 earnings and the quarterly cash dividends were approved by the BSP on January 27, 2014 and June 3, 2014, respectively. All related dividends declared were paid in 2014.

On June 20, 2013, the BOD of Equimark approved the declaration of cash dividends at P22.67 per share on 750,000 shares outstanding or a total of P17 to be paid to all stockholders of record as of December 31, 2012 and payable on June 28, 2013. Total dividends paid to non-controlling interests amounted to P7.

On April 19, 2013, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2012 earnings. On the same date, the Parent Bank's BOD also declared quarterly cash dividend of P0.30 per share representing dividends beginning the second quarter of 2013. Total dividends are P2.10 per share or P7,520. The dividends for the 2012 earnings and the quarterly cash dividends were approved by the BSP on May 28, 2013. All related dividends declared were paid in 2013.

On April 17, 2013, the BOD of BDO Leasing approved the declaration of cash dividends at P0.15 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P324. The dividends were declared to stockholders of record as of May 17, 2013 and payable on June 13, 2013, of which, total dividends paid to non-controlling interest amounted to P37.

On January 26, 2013, the Parent Bank's BOD approved the declaration of annual cash dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P340, which was approved by BSP on February 20, 2013 and was paid on April 24, 2013.

19.6 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to P25 and P101 in 2015 and 2014, respectively, representing insurance fund on losses due to fire and robbery. This was approved by the Parent Bank's President during 2015.

On March 28, 2015, the BOD of BDO Capital approved the appropriation of its surplus free amounting to P1,000 as additional working capital for its underwriting activities and investments. Subsequently, on May 30, 2015, the BOD of BDO Capital approved the reversal thereof amounting to P100. Also, on June 27, 2015, the BOD of BDO Capital approved the reversal of the remaining appropriated retained earnings amounting to P1,900 in connection with the merger with BDO Elite and BDO Savings (see Note 26.3).

On March 29, 2014, the BOD of BDO Securities approved the appropriation of their surplus free amounting to P150 as additional funds for proprietary equity trading of BDO Securities.

On May 31, 2013, the BOD of BDOI approved the reclassification of Surplus Reserves to Surplus Free amounting to P9 representing the cost of transfer of the BDOI's Consumer Lending Group (CLG) office from Orient Square to Equitable Robinson Tower Office.

On March 23, 2013, the BOD of BDO Capital and BDO Securities approved the appropriation of their surplus free amounting to P450 and P100, respectively, as additional working capital for underwriting activities and investments of BDO Capital and as additional funds for proprietary equity trading of BDO Securities.

Also, included in the 2015, 2014 and 2013 surplus reserve are the appropriations made by BDO Securities, PCIB Securities, Inc. and Armstrong Securities, Inc. totaling P14, P17 and P10, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P215 and P192 in 2015 and 2014, respectively, and P171 and P156 in 2015 and 2014, respectively, is appropriated to surplus reserve (see Note 25).

19.7 Others

On February 16, 2015, the BOD of Equimark approved the decrease of its authorized capital stock amounting to P67.5 divided into 675,000 common shares with P100 par value per share, of which P27 is to be paid to non-controlling interest. Such redemption of capital stock was approved by the SEC on May 18, 2015.

20. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	**2015**	2014	2013
Loans and other receivables	10	**P 63,836**	P 53,907	P 45,685
Trading and investment securities	9	**7,477**	7,333	9,164
Due from BSP and other banks	7, 8	**795**	2,065	1,576
Others		**19**	278	181
		P 72,127	P 63,583	P 56,606

		Parent Bank		
	Notes	**2015**	2014	2013
Loans and other receivables	10	**P 61,128**	P 52,172	P 44,279
Trading and investment securities	9	**6,743**	6,813	8,762
Due from BSP and other banks	7, 8	**635**	1,822	1,381
Others		**13**	64	9
		P 68,519	P 60,871	P 54,431

21. INTEREST EXPENSE

Interest expense is composed of the following:

		BDO Unibank Group		
	Notes	**2015**	2014	2013
Deposit liabilities	15	**P 12,526**	P 10,441	P 10,421
Bills payable and other liabilities	16, 17, 18, 23.2	**2,640**	1,917	3,019
		P 15,166	P 12,358	P 13,440

		Parent Bank		
	Notes	**2015**	2014	2013
Deposit liabilities	15	**P 12,075**	P 10,181	P 10,286
Bills payable and other liabilities	16, 17, 18, 23.2	**2,163**	1,547	2,728
		P 14,238	P 11,728	P 13,014

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		BDO Unibank Group		
	Notes	**2015**	2014	2013
Service charges, fees and commissions	24	**P 16,453**	P 15,386	P 12,991
Trading gains – net	9	**4,740**	5,868	8,422
Trust fees	25	**2,909**	2,624	2,473
Foreign exchange gains		**2,433**	1,244	4,342
Rental		**1,262**	992	733
Income from assets sold or exchanged	12	**774**	1,067	840
Dividend	24	**459**	490	498
Miscellaneous – net	13, 26	**2,909**	1,816	1,545
		P 31,939	P 29,487	P 31,844

		Parent Bank		
	Notes	**2015**	2014	2013
Service charges, fees and commissions	24	**P 13,660**	P 13,151	P 10,952
Trading gains – net	9	**4,167**	5,694	7,302
Dividend	24	**4,012**	2,613	829
Trust fees	25	**2,322**	2,180	2,116
Foreign exchange gains		**2,120**	1,043	4,153
Income from assets sold or exchanged	12	**686**	1,022	664
Rental		**356**	271	254
Miscellaneous – net	13, 26	**2,847**	1,052	810
		P 30,170	P 27,026	P 27,080

Other operating expenses consist of the following:

		BDO Unibank Group		
	Notes	**2015**	2014	2013
Compensation and benefits	23	**P 21,120**	P 18,081	P 16,480
Taxes and licenses		**6,683**	5,780	4,769
Occupancy	13.6, 24, 31.2	**6,675**	5,704	4,948
Fees and commissions		**3,712**	3,147	2,687
Insurance		**3,300**	2,856	2,019
Security, clerical, messengerial and janitorial		**2,628**	2,526	2,260
Advertising		**2,155**	2,427	2,499
Representation and entertainment		**1,442**	1,146	1,139
Travelling		**1,059**	871	761
Repairs and maintenance		**1,036**	959	766
Power, light and water		**903**	920	863
Supplies		**522**	515	485
Information technology		**427**	383	485
Telecommunication		**420**	432	427
Amortization of computer software	13.6	**285**	206	135
Freight		**259**	241	210
Litigation on assets acquired		**152**	461	575
Miscellaneous		**2,366**	1,875	1,751
		P 55,144	P 48,530	P 43,259

	Notes	Parent Bank 2015	2014	2013
Compensation and benefits	23	**P 19,593**	P 16,905	P 15,463
Taxes and licenses		**5,904**	5,280	4,366
Occupancy	13.6, 24, 31.2	**5,723**	4,988	4,482
Fees and commissions		**3,408**	2,788	2,417
Insurance		**3,181**	2,771	1,976
Security, clerical, messengerial and janitorial		**2,521**	2,467	2,211
Advertising		**2,026**	2,323	2,362
Representation and entertainment		**1,270**	999	1,005
Repairs and maintenance		**994**	933	750
Travelling		**909**	790	684
Power, light and water		**839**	861	819
Supplies		**465**	480	455
Information technology		**400**	369	475
Telecommunication		**358**	381	383
Freight		**253**	238	208
Amortization of computer software	13.6	**249**	196	128
Litigation on assets acquired		**121**	435	558
Miscellaneous		**2,180**	1,632	1,622
		P 50,394	P 44,836	P 40,364

23. COMPENSATION AND BENEFITS

23.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

	BDO Unibank Group 2015	2014	2013
Salaries and wages	**P 12,320**	P 10,896	P 9,765
Bonuses	**4,091**	3,502	3,174
Retirement – defined benefit plan	**1,211**	1,096	1,040
Social security costs	**503**	468	401
Other benefits	**2,995**	2,119	2,100
	P 21,120	P 18,081	P 16,480

	Parent Bank 2015	2014	2013
Salaries and wages	**P 11,330**	P 10,153	P 9,115
Bonuses	**3,799**	3,297	2,983
Retirement – defined benefit plan	**1,105**	991	960
Social security costs	**460**	429	369
Other benefits	**2,899**	2,035	2,036
	P 19,593	P 16,905	P 15,463

23.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

BDO Unibank Group maintains a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of 10 years of credited service and late retirement up to age 65, both subject to the approval of BDO Unibank Group's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2015 and 2014.

The amounts of Retirement benefit asset recognized under Other Resources account in the statements of financial position (see Note 13) are determined as follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Fair value of plan assets	**P 20,146**	P 18,602	**P 18,626**	P 17,691
Present value of the DBO	**(18,709)**	(17,325)	**(17,321)**	(16,447)
Excess of plan assets	**1,437**	1,277	**1,305**	1,244
Effect of asset ceiling	**(82)**	(66)	**(68)**	(60)
	P 1,355	P 1,211	**P 1,237**	P 1,184

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

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 18,602**	P 15,757	**P 17,691**	P 14,904
Contributions paid into the plan	**1,550**	2,870	**1,355**	2,758
Interest income	**885**	790	**818**	752
Benefits paid by the plan	**(726)**	(836)	**(693)**	(740)
Transfer to (from) the plan	**-**	57	**-**	57
Addition due to acquisition of a new subsidiary*	**435**	-	**-**	-
Remeasurement gain - return on plan assets (excluding amounts included in net interest)	**(600)**	(36)	**(545)**	(40)
Balance at end of year	**P 20,146**	P 18,602	**P 18,626**	P 17,691

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 17,325**	P 14,900	**P 16,447**	P 14,072
Current service cost	**1,211**	1,076	**1,105**	991
Interest expense	**809**	700	**747**	664
Benefits paid by the plan	**(726)**	(836)	**(693)**	(740)
Other liabilities**	**-**	1,436	**-**	1,404
Addition due to acquisition of a new subsidiary*	**492**	-	**-**	-
Liabilities assumed in business combinations***	**-**	28	**-**	28
Remeasurements:				
Actuarial (gains) losses arising from:				
- changes in financial assumptions	**(130)**	69	**(82)**	78
- changes in demographic assumptions	**(416)**	(515)	**(392)**	(481)
- experience adjustments	**144**	467	**189**	431
Balance at end of year	**P 18,709**	P 17,325	**P 17,321**	P 16,447

** Addition due to acquisition of a new subsidiary pertains to the retirement plan of ONB which was acquired in 2015 (see Note 26.1).*

*** Other liabilities pertains to accrued sick leave/vacation leave credits of employees that qualify under the retirement plan of BDO Unibank Group.*

**** Liabilities assumed in business combinations pertains to the retirement plan of BDO Savings, a newly acquired subsidiary in 2014, wherein the related retirement plan of the employees was subsequently transferred to the Parent Bank (see Note 26.5).*

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

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Placements in debt instruments				
- Government bonds	**P 8,071**	P 6,207	**P 7,475**	P 5,903
- Corporate bonds	**3,783**	3,146	**3,543**	2,992
Cash and cash equivalents	**4,008**	3,970	**3,794**	3,775
Unit investment trust funds (UITFs)	**2,163**	2,576	**1,971**	2,450
Loans and other receivables	**247**	541	**235**	515
Equity instruments	**539**	216	**346**	205
Other properties	**1,335**	1,946	**1,262**	1,851
	P 20,146	P 18,602	**P 18,626**	P 17,691

Actual returns on plan assets were P285 and P273 in 2015 and P754 and P712 in 2014 in BDO Unibank Group and the Parent Bank financial statements, respectively.

Certain plan assets comprise BDO Unibank Group's own financial instruments [see Note 24(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for loans and other receivables and other properties which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of BDO Unibank Group and the Parent Bank in respect of the defined benefit plan as follows:

	BDO Unibank Group		
	2015	2014	2013
Recognized in profit or loss:			
Current service costs	**P 1,211**	P 1,096	P 1,040
Interest income	**(72)**	(88)	(40)
	P 1,139	P 1,008	P 1,000
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**P 91**	(P 48)	P 95
- changes in demographic assumptions	**292**	360	-
- experience adjustments	**(101)**	(327)	(79)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(420)**	(25)	74
- changes in the effect of the asset ceiling	**(24)**	(19)	(16)
Share in actuarial gains of associates	**8**	12	-
	(P 154)	(P 47)	P 74

	Parent Bank		
	2015	2014	2013
Recognized in profit or loss:			
Current service costs	**P 1,105**	P 991	P 960
Interest income	**(69)**	(86)	(39)
	P 1,036	P 905	P 921
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**P 57**	(P 55)	P 93
- changes in demographic assumptions	**275**	336	-
- experience adjustments	**(133)**	(302)	(104)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(381)**	(28)	71
- changes in the effect of the asset ceiling	**(4)**	(14)	(14)
	(P 186)	(P 63)	P 46

Current service costs are presented as part of Compensation and benefits expense account under Other Operating Expenses account while interest income are netted against interest expense in the statements of income of BDO Unibank Group and the Parent Bank.

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

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

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Discount rates	**4.89% - 5.50%**	4.54% - 4.96%	**4.89%**	4.54%
Expected rate of salary increases	**8.00%**	8.00%	**8.00%**	8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, UITF, debt and equity instruments, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2015 and 2014:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2015			
BDO Unibank Group			
Discount rate	**1%**	**(P 619)**	**P 696**
Salary increase rate	**1%**	**595**	**(543)**
Parent Bank			
Discount rate	**1%**	**(P 515)**	**P 575**
Salary increase rate	**1%**	**488**	**(449)**

	Impact on retirement benefit obligation				
	Change in assumption	Increase in assumption		Decrease in assumption	
December 31, 2014					
BDO Unibank Group					
Discount rate	1%	(P	544)	P	646
Salary increase rate	1%		548		(467)
Parent Bank					
Discount rate	1%	(P	498)	P	597
Salary increase rate	1%		506		(429)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(iii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2015 and 2014 consists of debt instruments and cash and cash equivalents, although the BDO Unibank Group and Parent Bank also invest in UITFs and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the Company's strategies to manage its risks from previous periods.

(iv) Funding Arrangements and Expected Contributions

As of December 31, 2015, the plan of BDO Unibank Group and the Parent Bank is currently fully funded based on the latest actuarial valuation report.

The BDO Unibank Group and the Parent Bank expects to pay P1,530 and P1,355, respectively, as contributions to retirement benefit plans in 2016.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next 10 years is presented as follows:

	BDO Unibank Group		Parent Bank	
Between one to five years	P	7,510	P	7,146
Between six to 10 years		13,563		12,794
	P	21,073	P	19,940

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.9 to 18.3 years for the BDO Unibank Group and 6.9 years for the Parent Bank.

24. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's significant transactions with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows:

		2015		2014	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI Loans	24(a)				
Stockholders		**P 12,588**	**P 12,012**	P 28,534	P 12,046
Related Parties Under Common Ownership		**26,745**	**16,217**	76,984	34,389
Officers and Employees		**1,112**	**1,455**	1,022	1,415
Directors		**-**	**-**	2	2
Deposit Liabilities	24(b)				
Stockholders		**339,476**	**61,034**	397,735	624
Related Parties Under Common Ownership		**498,553**	**15,513**	825,574	3,009
Officers and Employees		**3**	**3**	98	1
Other Transactions with Associates	24(d)				
Loans and Advances		**5**	**1,225**	-	1,233
Dividend Income		**130**	**-**	428	148
Interest Income		**17**	**59**	92	4
Service Fees		**51**	**14**	42	12
Related Parties Under Common Ownership					
Rent Expense	24(d)	**760**	**78**	608	67
Key Management Personnel	24(d)				
Compensation		**1,352**	**-**	1,202	-
Retirement Plan	24(c)	**224**	**3,081**	273	4,178

The summary of the Parent Bank's significant transactions with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows:

Related Party Category	Notes	2015 Amount of Transaction	2015 Outstanding Balance	2014 Amount of Transaction	2014 Outstanding Balance
DOSRI Loans	24(a)				
Stockholders		**P 12,586**	**P 12,012**	P 28,534	P 12,046
Related Parties Under Common Ownership		**26,702**	**16,104**	76,924	34,310
Officers and Employees		**1,094**	**1,442**	1,021	1,413
Deposit Liabilities	24(b)				
Stockholders		**339,476**	**61,034**	397,735	624
Related Parties Under Common Ownership		**498,553**	**15,513**	825,574	3,009
Officers and Employees		**3**	**3**	98	1
Other Transactions with Subsidiaries	24(d)				
Loans and Advances		**45,119**	**6,980**	56,983	7,958
Derivative Assets		**99**	**10**	85	5
Derivative Liabilities		**574**	**6**	1,224	7
Deposit Liabilities		**198**	**3,002**	451	2,804
Dividend Income		**3,671**	**2,400**	1,934	-
Interest Income		**207**	**102**	198	68
Rent Income		**58**	**-**	57	-
Service Fees		**65**	**-**	66	-
Interest Expense		**11**	**-**	11	1
Rent Expense		**9**	**-**	8	-
Asset management fees				119	-
Other Transactions with Associates	24(d)				
Dividend Income		**130**	**-**	428	148
Service Fees		**51**	**14**	42	12
Related Parties Under Common Ownership					
Rent Expense	24(d)	**699**	**78**	608	67
Key Management Personnel	24(d)				
Compensation		**950**	**-**	861	-
Retirement Plan	24(c)	**224**	**3,079**	272	4,175

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages:

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.0% to 3.5% per annum, 2.0% to 3.5% per annum and 2.0% to 3.0% per annum in 2015, 2014 and 2013, respectively, which are substantially 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 bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2015 and 2014, BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Total DOSRI loans	**P 29,684**	P 47,852	**P 29,558**	P 47,769
Unsecured DOSRI loans	**1,148**	3,203	**1,145**	3,143
Past due DOSRI loans	**-**	1	**-**	1
Non-performing DOSRI loans	**-**	1	**-**	1
% of DOSRI loans to total loan portfolio	**2.3%**	4.4%	**2.4%**	4.5%
% of unsecured DOSRI loans to total DOSRI loans	**3.9%**	6.7%	**3.9%**	6.6%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.0% to 12.0 % in 2015, 2.2% to 12.0% in 2014 and 2.3% to 12.0% in 2013 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2015 amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively. Total loan releases and collections in 2014, on the other hand, amounted to P106,542 and P124,463 for BDO Unibank Group and P106,479 and P124,449 for the Parent Bank, respectively.

BDO Unibank Group and the Parent Bank assessed that these loans are not impaired in 2015 and 2014.

(b) Deposits from Related Parties

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P838,032 and P1,223,407 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 5.3% both in 2015 and in 2014. The related interest expense from deposits amounted to P1,672 and P906 in 2015 and 2014, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended December 31, 2015 and 2014 as follows:

	December 31, 2015			
	BDO Unibank Group		Parent Bank	
Transactions	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	P -	P 54	P -	P 54
BDO Leasing	-	1	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	3,011	-	3,011
Trading gain				
BDO Unibank, Inc.	219	-	219	-
Interest expense				
BDO Unibank, Inc.	5	-	5	-

	December 31, 2014			
	BDO Unibank Group		Parent Bank	
Transactions	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	P 130	P 71	P 130	P 71
BDO Leasing	-	2	-	-
BDO Capital	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	4,090	-	4,090
Trading gain				
BDO Unibank, Inc.	134	-	134	-
Interest expense				
BDO Unibank, Inc.	8	-	8	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P3,011 and P4,090 as of December 31, 2015 and 2014, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P5 in 2015 and P8 in 2014.

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 23.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown below. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the consolidated financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total loans and advances granted and collections amounted to P45,119 and P46,097, respectively, in 2015 and P56,983 and P58,918, respectively, in 2014. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P163 and P92 as of December 31, 2015 and 2014, respectively (see Note 10).

The Parent Bank also grants unsecured and interest-bearing loans to subsidiaries with outstanding balance of P6,715 and P7,798 as of December 31, 2015 and 2014, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). These loans are payable in cash with a term between one month to two years. Interest income recognized on these loans amounted to P207 in 2015, P198 in 2014 and P219 in 2013 and is presented as part of Interest Income in the Parent Bank's statements of income. Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2015, 2.0% to 3.5% per annum in 2014 and 2.0% to 3.0% per annum in 2013.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and

collateral documents, credit card services, human resources management, information technology needs, internal audit, credit card services, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/ asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank.

In 2015, 2014 and 2013, total service fees amounted to P65, P66 and P66, respectively, and are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 22). There are no outstanding balance arising from these transactions as of December 31, 2015 and 2014.

Certain subsidiaries lease office space from the Parent Bank. For the years ended December 31, 2015, 2014 and 2013, total rent collected from the subsidiaries amounted to P58, P57 and P53, respectively, and is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 22). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to P82, P119 and P120 in 2015, 2014 and 2013, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends declared by BDO Unibank Group's subsidiaries amounted to P3,671, P1,934 and P364, respectively. These are presented as part of Dividends under Other Operating Income account in the Parent Bank statements of income (see Note 22). Out of the total dividends declared, the Parent Bank received P1,271, P1,934 and P364 in 2015, 2014 and 2013, respectively.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid for the years ended December 31, 2015, 2014 and 2013 amounted to P9, P8 and P8, respectively, and is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank's financial statements (see Note 22). The lease term is between ten to twenty years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2015 and 2014.

(4) Derivatives

In 2015 and 2014, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2015 and 2014, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative with negative fair values under Other Liabilities account in the statements of financial position.

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank amounted to P3,002 and P2,804 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 5.3% both in 2015 and 2014. The related interest expense from deposits amounted to P11 both in 2015 and 2014.

(ii) Other transactions with associates are shown below.

(1) Loans and Advances to Associates

As of December 31, 2015 and 2014, outstanding unsecured and interest-bearing loans and advances to associates amounted to P1,225 and P1,233, respectively, in BDO Unibank Group financial statements (nil for the Parent Bank). The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between five to seven years. Total collections on loans and advances amounted to P13 and P16 in 2015 and 2014, respectively. BDO Unibank Group recognized P17, P92 and P91 interest income on these loans in 2015, 2014 and 2013, respectively. Annual interest rate on these loans ranges from 6.6% to 7.7% for the years 2015, 2014 and 2013. As of December 31, 2015 and 2014, there were no impairment losses recognized on these loans and advances.

(2) Income to the Parent Bank

Generali, an associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, Generali pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. For the years ended December 31, 2015, 2014 and 2013, total services fees amounted to P51, P42 and P35, respectively. Outstanding balances arising from this transaction amounted to P14 and P12 as of December 31, 2015 and 2014, respectively and is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P130, P428 and P216, respectively. These are presented as part of Dividend under Other Operating Income in the statements of income (see Note 22). Dividends receivable amounted to P148 as of December 31, 2014 (nil as of December 31, 2015). These are presented as part of Other Resources (see Note 13).

(iii) Transaction of the Parent Bank with related parties under common ownership:

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2015, 2014 and 2013, total rent paid to related parties amounted to P699, P608 and P529, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P78 and P67 as of December 31, 2015 and 2014, respectively and is included as part of Accounts payable under Other Liabilities (see Note 18).

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows (see Note 23.1):

	BDO Unibank Group		
	2015	2014	2013
Salaries and wages	**P 863**	P 786	P 679
Bonuses	**406**	377	334
Social security costs and other benefits	**83**	39	38
	P 1,352	P 1,202	P 1,051

	Parent Bank		
	2015	2014	2013
Salaries and wages	**P 605**	P 562	P 467
Bonuses	**287**	271	234
Social security costs and other benefits	**58**	28	27
	P 950	P 861	P 728

25. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not resources of the BDO Unibank Group (see Note 31.3).

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Investments	**P 910,720**	P 808,105	**P 663,127**	P 590,995
Others	**6,627**	9,342	**5,428**	6,542
	P 917,347	P 817,447	**P 668,555**	P 597,537

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities (shown as part of AFS securities) with a total face value of P9,667 and P9,106 as of December 31, 2015 and 2014, respectively, in BDO Unibank Group and P6,865 and P6,230 as of December 31, 2015 and 2014, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2015 and 2014, the additional reserve for trust functions amounted to P215 and P192, respectively, for BDO Unibank Group and P171 and P156, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P2,909, P2,624 and P2,473 for the years ended December 31, 2015, 2014 and 2013, respectively, in BDO Unibank Group statements of income and P2,322, P2,180, and P2,116 for the years ended December 31, 2015, 2014 and 2013, respectively, in the Parent Bank statements of income (see Note 22).

26. MERGERS AND ACQUISITIONS

26.1 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax (DST) amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources		28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity		14
Cost of investment		6,687
Goodwill (see Note 13)	P	2,903

26.2 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by its wholly owned subsidiary, BDO Capital, in CBN Grupo by way of a subscription of 3,273,000 CBN Grupo shares for a total subscription amount of €3. Upon completion of the proposed investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The transaction is still subject to the necessary regulatory approvals as of December 31, 2015.

26.3 Three Way Merger among BDO Capital, BDO Savings and BDO Elite

On July 22, 2015, the shareholders of BDO Capital, BDO Elite and BDO Savings approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 98.82% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The merger will involve the issuance of shares by BDO Capital to the Parent Bank and other shareholders of the companies to be absorbed. The exchange ratio is determined at (a) 0.14102 BDO Capital share for every BDO Elite share held, and (b) 0.04313 BDO Capital share for every BDO Savings share held, based on the audited financial statements of the companies as of June 30, 2015.

The transaction is still subject to the necessary regulatory approvals.

26.4 Acquisition of Generali

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of Generali Pilipinas Holding Company, Inc. (GPHC), which owns Generali Pilipinas Life Assurance Company (GPLAC), a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHC. Currently, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of GPHC. Upon closing of the transaction, BDO Unibank Group will acquire 60% of the issued and outstanding capital stock of GPHC from the Generali Group.

On the other hand, the Generali Group will acquire 100% of the issued and outstanding capital stock of GPIC from GPHC. As of December 31, 2015, the transaction has not been closed and is still pending regulatory approvals from the BSP and the Insurance Commission.

26.5 Acquisition of BDO Savings

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.99% of the outstanding capital stock of CSI for P878 subject to necessary regulatory approval. The BSP approved the transaction on February 20, 2014. The acquisition resulted in the recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively. Subsequent to the acquisition, the Parent Bank changed the name of CSI to BDO Savings. Subsequently, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.7). The breakdown of the acquisition-date fair value of the assets and liabilities of BDO Savings, including the cost of investments follows:

Cash and cash equivalents	P	5,756
Trading and investment securities		1,012
Loans and other receivables		11
Bank premises, furniture, fixtures and equipment		48
Other resources		16
Total resources		6,843
Deposit liabilities		5,748
Other liabilities		199
Total liabilities		5,947
Net asset position		896
Cost of investment*		878
Gain from acquisition	P	18

** The value of the 20 branch licenses as a consequence of this acquisition totaling P380 were separately identified and valued by the Parent Bank and previous shareholders, hence, did not form part of the cost of investment (see Note 13).*

26.6 Purchase of Assets and Assumption of Liabilities of The Real Bank (A Thrift Bank), Inc.

On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. [TRB] executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Bank recognized the fair value of assets and liabilities of TRB as presented below.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		10
Total resources		2,491
Deposit liabilities		6,922
Bills payable		11
Other liabilities		185
Total liabilities		7,118
Net liability position	P	4,627

As settlement on the net liability position assumed by the Parent Bank, the majority shareholder/s of TRB will shoulder the P2,000 deficiency, through a term loan covered by acceptable hard assets, while the remaining deficiency is recognized by the Parent Bank as part of Branch licenses as granted by the BSP (see Note 13). In 2015, the P2,000 deficiency was settled through issuance of term loan under contract-to-sell financing and is presented as part of Loans and discounts under Loans and Other Receivables account in the 2015 statement of financial position (see Note 10).

26.7 Acquisition of Assets and Assumption of Liabilities from BDO Savings

On April 3, 2014, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.5). The BSP approved the transaction on August 1, 2014.

The Parent Bank recognized the assets and liabilities of BDO Savings as follows:

Cash and other cash items	P	4,778
Loans and other receivables		3
Premises, furniture, fixtures and equipment		35
Other resources		18
Total resources		4,834
Deposit liabilities		4,765
Other liabilities		69
Total liabilities		4,834
Net liability position	P	-

26.8 Acquisition of Trust Business

On February 21, 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 31.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13).

27. TAXES

27.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 3,510**	P 3,401	P 480
Minimum corporate income tax (MCIT) at 2%	**665**	369	583
Final taxes at 20%, 15%, 10% and 7.5%	**1,305**	1,084	788
	5,480	4,854	1,851
Deferred tax expense (income) relating to origination and reversal of temporary differences	**221**	(74)	253
	5,701	4,780	2,104
Application of previously unrecognized MCIT	**-**	(540)	-
	P 5,701	P 4,240	P 2,104
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 100)**	(P 22)	P 32
Movements in fair value of AFS securities	**(67)**	4	(21)
Movements in revaluation increment	**(8)**	-	(41)
	(P 175)	(P 18)	(P 30)

	Parent Bank		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 3,510**	P 3,202	P 65
Final taxes at 20%, 15%, 10% and 7.5%	**1,086**	933	636
MCIT at 2%	**-**	-	474
	4,596	4,135	1,175
Deferred tax expense (income) relating to origination and reversal of temporary differences	**233**	(73)	243
	4,829	4,062	1,418
Application of previously unrecognized MCIT	**-**	(540)	-
Tax expense reported in the statements of income	**P 4,829**	P 3,522	P 1,418
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 80)**	(P 26)	P 19
Movements in revaluation increment	**(8)**	-	(38)
	(P 88)	(P 26)	(P 19)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,227**	P 8,120	P 7,425
Adjustment for income subjected to lower income tax rates	**(657)**	(430)	(266)
Tax effects of:			
Income exempt from tax	**(3,076)**	(3,446)	(5,902)
Non-deductible expenses	**891**	791	1,448
Deductible temporary differences not recognized	**(713)**	(266)	(1,435)
NOLCO not recognized	**(9)**	6	563
Utilization of previously unrecognized net operating loss carryover (NOLCO)	**-**	(501)	-
Application of previously unrecognized MCIT	**-**	(540)	-
Others	**38**	506	271
Tax expense reported in profit or loss	**P 5,701**	P 4,240	P 2,104

	Parent Bank		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,404**	P 7,896	P 6,575
Adjustment for income subjected to lower income tax rates	**(431)**	(359)	(244)
Tax effects of:			
Income exempt from tax	**(4,111)**	(3,340)	(5,628)
Deductible temporary differences not recognized	**(773)**	(283)	(1,435)
Non-deductible expenses	**740**	630	1,194
Application of previously unrecognized MCIT	**-**	(540)	-
Utilization of previously unrecognized NOLCO	**-**	(482)	-
NOLCO not recognized	**-**	-	482
Others	**-**	-	474
Tax expense reported in profit or loss	**P 4,829**	P 3,522	P 1,418

The components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Deferred tax assets:				
Allowance for impairment	**P 6,117**	P 5,924	**P 5,823**	P 5,823
Unamortized past service costs	**1,445**	1,608	**1,409**	1,556
Lease income differential	**106**	99	**106**	99
NOLCO	**17**	31	**-**	-
Others	**44**	2	**-**	-
	7,729	7,664	**7,338**	7,478
Deferred tax liabilities:				
Retirement asset	**776**	723	**784**	768
Revaluation increment	**432**	438	**431**	439
Lease income differential	**85**	121	**-**	-
Changes in fair values of AFS securities	**74**	76	**-**	-
Capitalized interest	**56**	58	**55**	58
Others	**227**	215	**-**	-
	1,650	1,631	**1,270**	1,265
Net deferred tax assets	**P 6,079**	P 6,033	**P 6,068**	P 6,213

Movements in net deferred tax assets for the year ended December 31 follow:

BDO Unibank Group	Statements of Income		
	2015	2014	2013
Unamortized past service costs	**P 163**	(P 310)	P 62
Retirement asset	**116**	500	119
Lease income differential	**(42)**	(38)	(4)
NOLCO	**14**	4	(28)
Capitalized interest	**(2)**	(3)	8
Allowance for impairment	**-**	(300)	73
Others	**(28)**	73	23
Deferred tax expense (income)	**P 221**	(P 74)	P 253

Parent Bank	Statements of Income		
	2015	**2014**	**2013**
Retirement asset	**P 96**	P 556	P 130
Unamortized past service costs	**147**	(307)	55
Lease income differential	**(7)**	(9)	(5)
Capitalized interest	**(3)**	(3)	8
Allowance for impairment	**-**	(310)	55
Deferred tax expense (income)	**P 233**	(P 73)	P 243

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Movements in actuarial losses	**(P 100)**	(P 22)	**(P 80)**	(P 26)
Movements in fair value of AFS securities	**(67)**	4	**-**	-
Movements in revaluation increment	**(8)**	-	**(8)**	-
Deferred tax income	**(P 175)**	(P 18)	**(P 88)**	(P 26)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2015	P 1	P 12	2018
2014	1,087	12	2017
2013	161	20	2016
	P 1,249	P 44	

In 2015, NOLCO and MCIT amounting to P1 and P24, respectively, expired for BDO Unibank Group (nil for Parent Bank).

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2015 and 2014 are as follows:

	BDO Unibank Group			
	2015		2014	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 16,089**	**P 4,827**	P 18,538	P 5,561
NOLCO	**1,249**	**375**	930	279
MCIT	**44**	**44**	18	18
Others	**1,947**	**584**	812	244
	P 19,329	**P 5,830**	P 20,298	P 6,102

	Parent Bank			
	2015		2014	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 18,140**	**P 5,442**	P 20,588	P 6,176
Others	**1,947**	**584**	699	210
	P 20,087	**P 6,026**	P 21,287	P 6,386

BDO Unibank Group continues claiming itemized deduction for income tax purposes.

27.2 Gross Receipts Tax

On January 29, 2004, Republic Act (RA) No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

27.3 Documentary Stamp Tax

DST (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 17, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 75 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

27.4 Supplementary Information Required by the Bureau of Internal Revenue

The BIR issued Revenue Regulations (RR) 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

28. EARNINGS PER SHARE

Basic earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 25,016**	P 22,805	P 22,608
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**24,677**	22,466	22,268
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 6.84**	P 6.27	P 6.22

Diluted earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 24,677***	P 22,466*	P 22,608
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of preferred shares	*	*	75
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 6.84**	P 6.27	P 6.18

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in the secondary market and no additional issuance is expected to be made.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,519**	P 22,797	P 20,499
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**26,180**	22,458	20,159
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 7.25**	P 6.27	P 5.63

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,180***	P 22,458*	P 20,499
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of convertible preferred shares	*	*	75
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 7.25**	P 6.27	P 5.61

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in market and no additional issuance is expected to be made.*

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2015	2014	2013
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**13.4%**	13.4%	14.0%
Return on average resources:			
Net profit / Average total resources	**1.3%**	1.3%	1.6%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.3%
Return on common equity:			
Net profit / Average common equity	**13.6%**	13.6%	14.3%
Liquidity ratio:			
Total liquid resources / Total resources	**33.8%**	38.1%	43.0%
Debt to equity:			
Total liabilities / Total equity	**917.6%**	937.3%	917.8%
Resources to equity:			
Total resources / Total equity	**1,017.6%**	1,037.3%	1,017.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**302.8%**	319.0%	284.2%
Profit margin:			
Net profit / Revenues	**24.1%**	24.5%	25.6%
Capital to risk resources ratio*:			
Combined credit, market and operational risks	**13.3%**	14.4%	15.5%

** Computed using balances prepared under PFRS*

Parent Bank	2015	2014	2013
Return on average equity: Net profit / Average total capital accounts	**15.1 %**	14.3%	13.5%
Return on average resources: Net profit / Average total resources	**1.4 %**	1.4%	1.5%
Net interest margin: Net interest income / Average interest earning resources	**3.2 %**	3.2%	3.3%
Return on common equity: Net profit / Average common equity	**15.3 %**	14.5%	13.8%
Liquidity ratio: Total liquid resources / Total resources	**32.7 %**	37.4%	41.7%
Debt to equity: Total liabilities / Total equity	**912.1 %**	964.0%	950.6%
Resources to equity: Total resources / Total equity	**1,012.1 %**	1,064.0%	1,050.6%
Interest rate coverage: Earnings before interest and taxes / Interest expense	**320.2 %**	324.4%	268.4%
Profit margin: Net profit / Revenues	**26.9 %**	25.9%	25.2%
Capital to risk resources ratio*: Combined credit, market and operational risk	**12.2 %**	13.1%	13.3%

** Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Aggregate amount of secured liabilities	**P 1,682**	P 23,977	**P 577**	P 22,853
Aggregate amount of resources pledged as security	**P 6,723**	P 32,482	**P 2,906**	P 29,695

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

30.1 Dividends

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends were paid on February 16, 2016.

30.2 Joint Venture Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in a Joint Venture Investment Agreement (Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2015, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

31.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (TRO) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

On November 27, 2012, the Petitioning Banks filed a Manifestation With Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated November 27, 2012 ("Manifestation/Reiterative Motion"), praying that the Supreme Court issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to Petitioners to enable them to comply with the Honorable Court's "condition that the 20% final withholding tax on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On February 7, 2013, the Petitioners received Respondents' Motion asking for a period of thirty (30) days from February 4, 2013, or until March 6, 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated February 12, 2013, the Supreme Court granted Respondents' Motion. On April 17, 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated April 11, 2013. On June 5, 2013, the Petitioners filed a Reply to said Comment. By Resolutions dated June 10, 2013 and July 9, 2013, respectively, the Supreme Court admitted the Petitioners-Intervenors RCBC and RCBC Capital's Reply and Petitioners' Reply.

On January 13, 2015, the Supreme Court En Banc promulgated its Decision nullifying BIR Ruling Nos. 370-2011 and DA 378-2011, and ordering the Bureau of Treasury to immediately release and pay to the bondholders the amount corresponding to the 20% final withholding tax that it withheld on October 18, 2011.

On March 16, 2015, Intervenors RCBC and RCBC Capital Corporation filed their Motion for Clarification and/or Partial Reconsideration. On April 13, 2015, the Respondents filed their Motion for Reconsideration and Clarification.

On April 21, 2015, the Supreme Court en banc issued a Resolution requiring the Petitioners to file a Comment on the Motions filed by the Intervenors and the Respondents.

On July 6, 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and Intervenors' Motion for Clarification and/or Partial Reconsideration (Petitioners' Consolidated Comment).

On July 28, 2015, the Supreme Court en banc issued a Resolution noting the Petitioner's Consolidated Comment, noting the Intervenors' Comment on the Respondents' Motion for Reconsideration and Clarification (Intervenors' Comment), and requiring the Office of the Solicitor General (OSG), on behalf of the Respondents, to file a Reply to the Petitioners' Consolidated Comment and Intervenors' Comment (Respondents' Reply) within ten days from receipt of Notice of Resolution.

On October 29, 2015, Petitioners received the Respondents' Reply dated October 19, 2015 and filed an Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated October 22, 2015 which is still pending before the Supreme Court En Banc. As of January 19, 2016, Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated March 13, 2015, and RCBC and RCAP's Motion for Clarification and/or Partial Reconsideration dated March 16, 2015. Likewise, petitioners are still awaiting the Supreme Court's Resolution on our Urgent Reiterative Motion.

BDO Unibank continues to believe that petitioning banks have a strong case, and the 20% FWT amounting to P690 under Accounts receivable account presented under Loans and Other Receivables in the statements of financial position is recoverable (see Note 10).

31.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, nineteen banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. BDO Unibank, Inc. and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 29, 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief, and a Supplemental Motion for Reconsideration on July 7, 2015.

On August 5, 2015, the Petitioners filed their Comment on the BIR's Supplemental Motion for Reconsideration. The Petitioners also filed their Consolidated Reply to the Consolidated Comments of Respondents BIR and Department of Finance. To date, RTC Makati has not yet resolved Respondent BIR's Supplemental Motion for Reconsideration, dated June 20, 2015, which seeks the reconsideration of RTC Makati's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of September 7, 2015, RTC Makati issued an Order allowing Development Bank of the Philippines (DBP) and United Overseas Bank of the Philippines (UOBP) to intervene in the case. As of January 19, 2015, RTC Makati has not yet resolved UOBP's application for the issuance of a Writ of Preliminary Injunction.

On October 19, 2015, Land Bank of the Philippines (LBP) filed a Motion for Leave to Admit LBP's Petition-in-Intervention. As of January 19, 2016, RTC Makati has not yet resolved LBP's Motion to Intervene.

On November 10, 2015, RTC Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

31.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2015, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P2,569, P2,199 and P1,971 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P2,415, P2,131 and P1,875 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 22).

As of December 31, 2015, the estimated minimum future annual rentals of BDO Unibank, Inc. and Parent Bank follow:

	BDO Unibank Group	Parent Bank
Within one year	P 2,315	P 2,176
More than one year but not more than five years	11,337	10,769
More than five years	4,259	4,153
	P 17,911	**P 17,098**

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2015 and 2014, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

		BDO Unibank Group		Parent Bank	
	Note	2015	2014	2015	2014
Trust department accounts	25	**P 917,347**	P 817,447	**P 668,555**	P 597,537
Committed credit lines		**132,385**	121,794	**132,192**	121,575
Forward exchange sold		**104,736**	140,322	**83,717**	120,045
Forward exchange bought		**94,826**	121,434	**70,788**	98,584
Unused commercial letters of credit		**41,888**	54,109	**41,876**	54,109
Outstanding guarantees issued		**18,916**	3,446	**18,903**	3,446
Interest rate swap receivable		**16,554**	8,756	**9,528**	5,900
Interest rate swap payable		**16,554**	8,756	**9,528**	5,900
ROP warrants		**15,021**	15,021	**15,021**	15,021
Spot exchange sold		**6,738**	7,111	**6,588**	7,105
Bills for collection		**5,213**	6,978	**5,213**	6,978
Spot exchange bought		**3,000**	2,522	**2,849**	2,516
Export letters of credit confirmed		**2,577**	240	**2,577**	240
Late deposits/payments received		**2,404**	3,318	**2,372**	3,318
Other contingent accounts		**2,194**	1,138	**2,138**	1,138

Supplementary Management Discussion

The capital-to-risk assets ratio of BDO Unibank Group as presented in the Capital Adequacy Ratio (Basel III) reports as of December 31, 2015 and 2014 are shown in the table below.

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank
	December 31, 2015		December 31, 2014	
	(in Millions)		(in Millions)	
Common equity tier 1 capital	**191,489**	**184,534**	174,240	165,659
Additional tier 1 capital	**5,150**	**5,150**	5,150	5,150
Tier 1 capital	**196,639**	**189,684**	179,390	170,809
Tier 2 capital	**24,612**	**23,815**	22,465	21,875
Gross qualifying capital	**221,251**	**213,499**	201,855	192,684
Less: Regulatory adjustments/deductions	**20,776**	**40,766**	18,565	35,534
Total qualifying capital	**200,475**	**172,733**	183,290	157,150
Credit risk-weighted assets	**1,375,819**	**1,296,059**	1,157,762	1,098,545
Market risk-weighted assets	**9,830**	**5,976**	12,256	9,572
Operational risk-weighted assets	**117,642**	**110,871**	103,103	95,715
Risk weighted assets	**1,503,291**	**1,412,906**	1,273,121	1,203,832
Total capital ratio	**13.3%**	**12.2%**	14.4%	13.1%
Tier 1 capital ratio	**11.7%**	**10.5%**	12.6%	11.2%
Common equity tier 1 ratio	**11.4%**	**10.2%**	12.2%	10.8%
Capital conservation buffer	***5.4%***	***4.2%***	*6.2%*	*4.8%*

Capital ratios involving components of regulatory capital are calculated as follows:

Total capital ratio	: Total Qualifying Capital	**200,475**	**172,733**	183,290	157,150
	Risk-Weighted Assets	**1,503,291**	**1,412,906**	1,273,121	1,203,832
Tier 1 capital ratio	: Tier 1 Capital (net of Regulatory Deductions)	**175,863**	**148,918**	160,825	135,275
	Risk-Weighted Assets	**1,503,291**	**1,412,906**	1,273,121	1,203,832
Common equity ratio	: Common Equity Tier 1 (net of Regulatory Deductions)	**170,713**	**143,768**	155,675	130,125
	Risk-Weighted Assets	**1,503,291**	**1,412,906**	1,273,121	1,203,832

The regulatory qualifying capital of the Parent Bank consists of Tier 1 capital which comprises paid-up common and preferred, surplus including current year profit, surplus reserves , other comprehensive income {net unrealized gains or losses on AFS securities and cumulative foreign currency translation and actuarial gain/(loss)}, and minority interest less regulatory deductions such as unsecured credit accommodations to directors, officers, stockholders and their related interests (DOSRI), unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, deferred tax assets, goodwill, other intangible assets, and defined benefit pension fund assets (liabilities). The other component of regulatory capital is Tier 2 capital, which includes unsecured subordinated debt, appraisal increment reserve, and general loan loss provision.

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	December 31, 2015		December 31, 2014	
	(in Millions)		(in Millions)	
Common Equity Tier 1 (CET1) Capital				
Paid-up common stock	**36,454**	**36,454**	35,809	35,809
Additional paid-in capital	**69,935**	**69,915**	63,907	63,888
Retained earnings	**64,007**	**55,651**	49,360	40,752
Undivided profits	**25,374**	**26,518**	22,532	22,797
Net unrealized gains or losses on AFS securities	**(622)**	**(523)**	2,709	2,411
Cumulative foreign currency translation	**(62)**	**10**	(77)	2
Actuarial gain/(loss)	**(3,597)**	**(3,491)**		
Minority interest in subsidiary banks which are less than wholly-owned	**0**		0	
Sub-total	**191,489**	**184,534**	174,240	165,659
Less: Regulatory adjustments/deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**1,145**	**1,145**	3,143	3,143
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**55**	**6,987**	52	7,469
Deferred tax assets	**6,071**	**6,068**	6,027	6,213
Goodwill	**3,015**	**6**	101	10
Other intangible assets	**4,573**	**4,455**	4,326	4,237
Defined benefit pension fund assets (liabilities)	**1,347**	**1,237**	1,222	1,184
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 (for solo basis only and as applicable)	**0**	**16,330**	0	9,596
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	**11**	**50**	11	50
Other equity investments in non-financial allied undertakings and non-allied undertakings	**4,559**	**4,488**	3,683	3,632
Sub-total	**20,776**	**40,766**	18,565	35,534
Total Common Equity Tier 1 Capital	**170,713**	**143,768**	155,675	130,125
Additional Tier 1 Capital				
Perpetual preferred shares	**5,150**	**5,150**	5,150	5,150
Additional paid-in capital	**0**	**0**	0	0
	5,150	**5,150**	5,150	5,150
Total Tier 1 Capital	**175,863**	**148,918**	160,825	135,275

The components of Tier 2 capital follow:

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank
	December 31, 2015		December 31, 2014	
	(in Millions)		(in Millions)	
Tier 2 Capital				
Instruments issued by the bank that are eligible as Tier 2 capital	**10,000**	**10,000**	10,000	10,000
Appraisal increment reserve-bank premises, as authorized by the Monetary Board	**850**	**850**	864	864
General loan loss provision, limited to a maximum of 1% 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	**13,762**	**12,965**	**11,601**	**11,011**
	24,612	**23,815**	**22,465**	**21,875**

Below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements for 2015 AND 2014:

QUALIFYING CAPITAL

	December 31, 2015					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
	(in Millions)			(in Millions)		
A.1 Common Equity Tier 1 (CET1) Capital	**192,646**	**(1,158)**	**191,488**	**192,636**	**(8,102)**	**184,534**
Paid-up common stock	*36,454*	*0*	*36,454*	*36,454*	*0*	*36,454*
Additional paid-in capital	*69,915*	*19*	*69,934*	*69,915*	*0*	*69,915*
Retained earnings	*65,703*	*(1,696)*	*64,007*	*65,895*	*(10,244)*	*55,651*
Undivided profits	*25,115*	*259*	*25,374*	*24,861*	*1,657*	*26,518*
Other comprehensive income	*(4,541)*	*260*	*(4,281)*	*(4,489)*	*485*	*(4,004)*
Net unrealized gains or losses on AFS securities	(917)	295	(622)	(809)	286	(523)
Cumulative foreign currency translation	(60)	(2)	(62)	(74)	84	10
Actuarial gain/(loss)	(3,564)	(33)	(3,597)	(3,606)	115	(3,491)
Minority interest in subsidiary banks which are less than wholly-owned	*0*	*0*	*0*	*0*	*0*	*0*

	December 31, 2015					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
A.2 Regulatory adjustments to CET1 capital	**(22,164)**	**1,388**	**(20,776)**	**(49,142)**	**8,376**	**(40,766)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	*(1,145)*	*0*	*(1,145)*	*(1,145)*	*0*	*(1,145)*
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	*(55)*	*0*	*(55)*	*(6,987)*	*0*	*(6,987)*
Deferred tax assets	*(6,125)*	*53*	*(6,072)*	*(6,136)*	*68*	*(6,068)*
Goodwill	*(3,013)*	*(1)*	*(3,014)*	*(6)*	*0*	*(6)*
Other intangible assets	*(4,599)*	*26*	*(4,573)*	*(4,481)*	*26*	*(4,455)*
Defined benefit pension fund assets (liabilities)	*(1,347)*	*0*	*(1,347)*	*(1,237)*	*0*	*(1,237)*
Investment 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 (for solo basis only and as applicable)	*0*	*0*	*0*	*(23,218)*	*6,888*	*(16,330)*
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	*(190)*	*179*	*(11)*	*(311)*	*260*	*(51)*
Other equity investments in non-financial allied undertakings and non-allied undertakings	*(5,690)*	*1,131*	*(4,559)*	*(5,621)*	*1,134*	*(4,487)*
Total Common Equity Tier 1 Capital	**170,482**	**230**	**170,712**	**143,494**	**274**	**143,768**
Additional tier 1 capital	**5,150**	**0**	**5,150**	**5,150**	**0**	**5,150**
TOTAL TIER 1 CAPITAL	**175,632**	**230**	**175,862**	**148,644**	**274**	**148,918**
Tier 2 Capital	**24,621**	**(6)**	**24,615**	**23,815**	**0**	**23,815**
Instruments issued by the bank that are eligible as Tier 2 capital	*10,000*	*0*	*10,000*	*10,000*	*0*	*10,000*
Deposit for subscription of Tier 2 capital	*0*	*0*	*0*	*0*	*0*	*0*
Appraisal increment reserve-bank premises, as authorized by the MB	*850*	*0*	*850*	*850*	*0*	*850*
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	*13,771*	*(6)*	*13,765*	*12,965*	*0*	*12,965*
TOTAL QUALIFYING CAPITAL	**200,253**	**224**	**200,477**	**172,459**	**274**	**172,733**

*Per summary of adjustments as of December 31, 2015 as submitted to the Bangko Sentral ng Pilipinas

QUALIFYING CAPITAL

	December 31, 2014					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
A.1 Common Equity Tier 1 (CET1) Capital	**176,522**	**(2,282)**	**174,240**	**176,515**	**(10,856)**	**165,659**
Paid-up common stock	*35,809*	*0*	*35,809*	*35,809*	*0*	*35,809*
Additional paid-in capital	*63,888*	*19*	*63,907*	*63,888*	*0*	*63,888*
Retained earnings	*51,118*	*(1,758)*	*49,360*	*51,124*	*(10,372)*	*40,752*
Undivided profits	*22,765*	*(233)*	*22,532*	*22,764*	*33*	*22,797*
Other comprehensive income	*2,942*	*(310)*	*2,632*	*2,930*	*(517)*	*2,413*
Net unrealized gains or losses on AFS securities	2,997	(288)	2,709	2,997	(586)	2,411
Cumulative foreign currency translation	(55)	(22)	(77)	(67)	69	2
Minority interest in subsidiary banks which are less than wholly-owned	*0*	*0*	*0*			
A.2 Regulatory adjustments to CET1 capital	**(18,374)**	**(191)**	**(18,565)**	**(43,627)**	**8,093**	**(35,534)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	(3,143)	0	(3,143)	(3,143)	0	(3,143)
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	*(52)*	*0*	*(52)*	*(7,469)*	*0*	*(7,469)*
Deferred tax assets	*(6,399)*	*372*	*(6,027)*	*(6,449)*	*236*	*(6,213)*
Goodwill	*(101)*	*0*	*(101)*	*(10)*	*0*	*(10)*
Other intangible assets	*(1,696)*	*(2,630)*	*(4,326)*	*(1,607)*	*(2,630)*	*(4,237)*
Defined benefit pension fund assets (liabilities)	*(1,222)*	*0*	*(1,222)*	*(1,184)*	*0*	*(1,184)*
Investment 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 (for solo basis only and as applicable)	*0*	*0*	*0*	*(17,930)*	*8,334*	*(9,596)*
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	*(1,855)*	*1,844*	*(11)*	*(1,929)*	*1,879*	*(50)*
Other equity investments in non-financial allied undertakings and non-allied undertakings	*(3,906)*	*223*	*(3,683)*	*(3,906)*	*274*	*(3,632)*
Total Common Equity Tier 1 Capital	**158,148**	**(2,473)**	**155,675**	**132,888**	**(2,763)**	**130,125**
Additional tier 1 capital	**5,150**	**0**	**5,150**	**5,150**	**0**	**5,150**
TOTAL TIER 1 CAPITAL	**163,298**	**(2,473)**	**160,825**	**138,038**	**(2,763)**	**135,275**

	December 31, 2014					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Tier 2 Capital	**22,502**	**(37)**	**22,465**	**21,908**	**(33)**	**21,875**
Instruments issued by the bank that are eligible as Tier 2 capital	*10,000*	*0*	*10,000*	*10,000*	*0*	*10,000*
Deposit for subscription of Tier 2 capital	*0*	*0*	*0*	*0*	*0*	*0*
Appraisal increment reserve-bank premises, as authorized by the MB	*864*	*0*	*864*	*864*	*0*	*864*
General loan loss provision, limited to a maximum of 1% of CRWA, and any amount in excess thereof shall be deducted from the CRWA in computing the denominator of the risk-based capital ratio	*11,638*	*(37)*	*11,601*	*11,044*	*(33)*	*11,011*
TOTAL QUALIFYING CAPITAL	**185,800**	**(2,510)**	**183,290**	**159,946**	**(2,796)**	**157,150**

**Per summary of adjustments as of December 31, 2014 as submitted to the Bangko Sentral ng Pilipinas*

Comparative risk-weighted assets by type of exposure as of December 31, 2015 and 2014 consist of the following:

	Credit Risk *		Market Risk **		Operational Risk	
			December 31, 2015			
	Group	Parent	Group	Parent	Group	Parent
			(in Millions)			
On-Balance Sheet	1,348,978	1,273,671				
Off-Balance Sheet	20,520	20,469				
Counterparty (Banking/Trading Book)	6,703	2,354				
Credit-Linked Notes in the Banking Book						
Securitization Exposures						
Deductions ***	(382)	(435)				
Interest Rate Exposures			5,775	2,365		
Equity Exposures			596	0		
Foreign Exchange Exposures			3,459	3,611		
Options						
Basic Indicator					117,642	110,871
Total	1,375,819	1,296,059	9,830	5,976	117,642	110,871
Capital Requirements	137,582	129,606	983	598	11,764	11,087

** Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, LGUs, Government Corporations, and Corporates.*

*** Excludes interest risks in the banking book (IRRBB). For IRRBB, please refer to 2015 NFS Section 4.2.2. Earnings-at-Risk (EaR) is calculated using a 1-year holding period and is measured on a monthly basis.*

****General loan loss provision (in excess of the amount permitted to be included in Tier 2).*

ON-BALANCE SHEET ASSETS

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	BDO Unibank Group						
			Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	45,663	45,663	45,663						45,663
Checks and Other Cash Items	307	307		307					307
Due from Bangko Sentral ng Pilipinas	271,808	271,808	271,808						271,808
Due from Other Banks	24,837	24,837	111	2,075	21,493		1,158		24,837
Financial Assets Designated at Fair Value through Profit or Loss	2,126	2,126					2,126		2,126
Available for Sale Securities	212,061	201,994	46,129	145	86,485		69,235		201,994
Unquoted Debt Securities Classified as Loans	813	813	813						813
Loans and Receivables	1,321,080	1,246,314		59,976	69,570	52,419	1,060,605	3,744	1,246,314
Loans and Receivables Arising from Repurchase Agreements	69,490	69,490	69,490						69,490
Sales Contract Receivable	1,971	1,808					855	953	1,808
Real and Other Properties Acquired	6,948	6,948						6,948	6,948
Other Assets	54,595	54,595	122	786	1,031		52,656		54,595
Total Exposures	2,011,699	1,926,703	434,136	63,289	178,579	52,419	1,186,635	11,645	1,926,703
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	12,658	89,290	39,314	1,186,635	17,468	1,345,364
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	2	128	0	3,484	0	3,614
Total Risk-weighted On-Balance Sheet Assets			0	12,660	89,418	39,314	1,190,119	17,468	1,348,978

OFF-BALANCE SHEET ASSETS

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	60			10		49		59
Transaction-related contingencies	11,684		25			11,659		11,684
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	8,777					8,777		8,777
	20,521	0	25	10	0	20,485	0	20,520

ON-BALANCE SHEET ASSETS

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank						
			Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	44,725	44,725	44,725						44,725
Checks and Other Cash Items	285	285		285					285
Due from Bangko Sentral ng Pilipinas	260,841	260,841	260,841						260,841
Due from Other Banks	20,944	20,944	111	1,090	19,671		72		20,944
Financial Assets Designated at Fair Value through Profit or Loss	0	0					0		0
Available for Sale Securities	191,182	181,115	37,752	145	84,655		58,563		181,115
Unquoted Debt Securities Classified as Loans	813	813	813						813
Loans and Receivables	1,271,982	1,197,639		58,496	69,570	41,527	1,024,301	3,745	1,197,639
Loans and Receivables Arising from Repurchase Agreements	58,431	58,431	58,431						58,431
Sales Contract Receivable	1,838	1,675					729	946	1,675
Real and Other Properties Acquired	6,703	6,703						6,703	6,703
Other Assets	39,477	39,477	121	2	45		39,309		39,477
Total Exposures	1,897,221	1,812,648	402,794	60,018	173,941	41,527	1,122,974	11,394	1,812,648
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	12,004	86,971	31,145	1,122,974	17,091	1,270,184
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	2	0	0	3,484	0	3,486
Total Risk-weighted On-Balance Sheet Assets			0	12,006	86,971	31,145	1,126,458	17,091	1,273,670

OFF-BALANCE SHEET ASSETS

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	47			10		37		47
Transaction-related contingencies	11,684		25			11,659		11,684
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	8,738					8,738		8,738
	20,469	0	25	10	0	20,434	0	20,469

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits or guarantees by the Philippine National Government. There are no securitization exposures, no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in Structured Products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

	Credit Risk *		Market Risk **		Operational Risk	
			December 31, 2014			
	Group	Parent	Group	Parent	Group	Parent
			(in Millions)			
On-Balance Sheet	1,126,640	1,070,754				
Off-Balance Sheet	26,151	26,107				
Counterparty (Banking/Trading Book)	7,256	4,265				
Credit-Linked Notes in the Banking Book						
Securitization Exposures						
Deductions ***	(2,285)	(2,581)				
Interest Rate Exposures			3,894	2,447		
Equity Exposures			713	0		
Foreign Exchange Exposures			7,649	7,125		
Options						
Basic Indicator					103,103	95,715
Total	1,157,762	1,098,545	12,256	9,572	103,103	95,715
Capital Requirements	115,776	109,855	1,226	957	10,310	9,572

** Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, LGUs, Government Corporations, and Corporates.*

*** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to 2014 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.*

****General loan loss provision (in excess of the amount permitted to be included in Tier 2).*

ON-BALANCE SHEET ASSETS

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	BDO Unibank Group						
			Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	44,569	44,569	44,569						44,569
Checks and Other Cash Items	178	178		178					178
Due from Bangko Sentral ng Pilipinas	269,542	269,542	269,542						269,542
Due from Other Banks	45,621	45,621		2,057	42,546		1,018		45,621
Financial Assets Designated at Fair Value through Profit or Loss	360	360					360		360
Available for Sale Securities	213,152	198,793	45,538	378	85,956		66,921		198,793
Loans and Receivables	1,210,331	1,104,744	87,553	58,122	77,853	48,011	831,360	1,845	1,104,744
Sales Contract Receivable	1,571	1,571					1,148	423	1,571
Real and Other Properties Acquired	7,967	7,967						7,967	7,967
Other Assets	55,499	55,499			4		55,495		55,499
Total Exposures	1,848,790	1,728,844	447,202	60,735	206,359	48,011	956,302	10,235	1,728,844
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	12,147	103,180	36,008	956,302	15,353	1,122,989
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	2	55	0	3,594	0	3,651
Total Risk-weighted On-Balance Sheet Assets			0	12,149	103,235	36,008	959,896	15,353	1,126,640

OFF-BALANCE SHEET ASSETS

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	20			10				10
Transaction-related contingencies	20,927					20,927		20,927
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,214					5,214		5,214
	26,161	0	0	10	0	26,141	0	26,151

ON-BALANCE SHEET ASSETS

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank						
			Risk Weights						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand	44,465	44,465	44,465						44,465
Checks and Other Cash Items	178	178		178					178
Due from Bangko Sentral ng Pilipinas	258,416	258,416	258,416						258,416
Due from Other Banks	43,165	43,165		2,031	41,046		88		43,165
Financial Assets Designated at Fair Value through Profit or Loss	1	1					1		1
Available for Sale Securities	190,500	176,141	34,039	378	84,415		57,309		176,141
Loans and Receivables	1,186,581	1,081,190	87,553	56,636	77,853	41,438	815,864	1,846	1,081,190
Sales Contract Receivable	1,484	1,484					1,069	415	1,484
Real and Other Properties Acquired	7,654	7,654						7,654	7,654
Other Assets	33,376	33,376	0		4		33,372		33,376
Total Exposures	1,765,820	1,646,070	424,473	59,223	203,318	41,438	907,703	9,915	1,646,070
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	11,845	101,659	31,079	907,703	14,873	1,067,158
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	2	0	0	3,594	0	3,596
Total Risk-weighted On-Balance Sheet Assets			0	11,847	101,659	31,079	911,297	14,873	1,070,754

OFF-BALANCE SHEET ASSETS

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	20			10				10
Transaction-related contingencies	20,927					20,927		20,927
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	5,170					5,170		5,170
	26,117	0	0	10	0	26,097	0	26,107

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits or guarantees by the Philippine National Government. There are no securitization exposures, no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in Structured Products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

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