2016 Annual Report

Financial Supplements

BDO

BDO

2016 Annual Report

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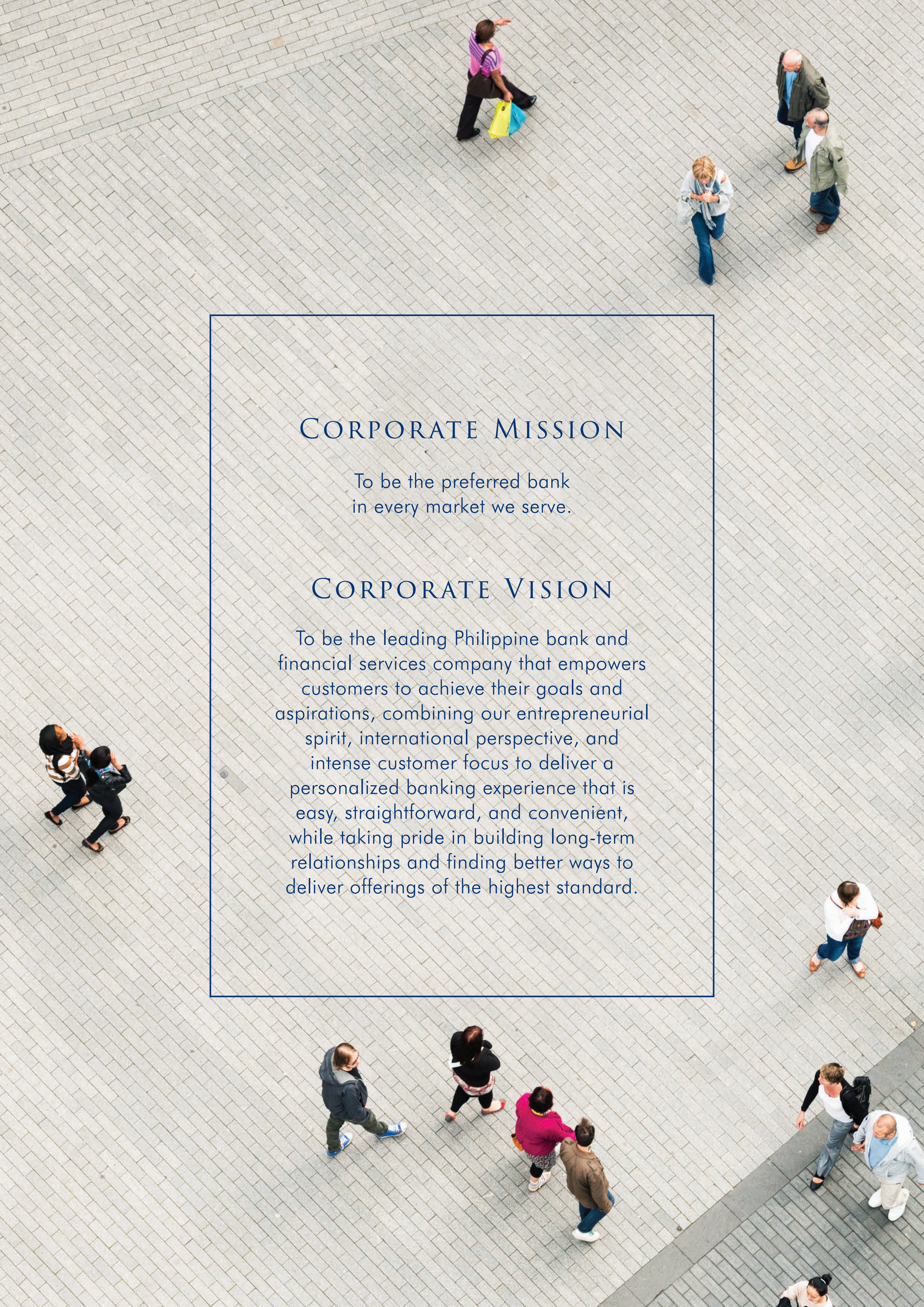


Corporate Mission

To be the preferred bank
in every market we serve.

Corporate Vision

To be the leading Philippine bank and financial services company that empowers customers to achieve their goals and aspirations, combining our entrepreneurial spirit, international perspective, and intense customer focus to deliver a personalized banking experience that is easy, straightforward, and convenient, while taking pride in building long-term relationships and finding better ways to deliver offerings of the highest standard.

Corporate Profile

BDO 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, Life Insurance, 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.

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 2016, BDO is the country's largest bank in terms of total 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, hotels and resorts), 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, risk management, and merchandise marketing.

BDO is a publicly listed company (PLC), with its shares currently being traded at the Philippine Stock Exchange under the symbol "BDO".

CORE VALUES

Commitment to Customers

We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer services, while remaining 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.

Financial Highlights

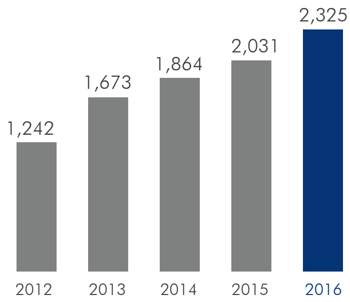
	2016	2015	CHANGE
BALANCE SHEET (in billion Php)			
Resources	2,325.0	2,031.3	14.5%
Gross Customer Loans	1,482.0	1,279.4	15.8%
Trading and Investment Securities	269.0	225.8	19.2%
Deposits	1,905.2	1,663.9	14.5%
Equity[1/]	217.5	199.6	9.0%
INCOME STATEMENT (in billion Php)			
Net Interest Income	65.6	57.0	15.2%
Non-Interest Income	41.6	31.9	30.3%
Gross Operating Income	107.2	88.9	20.6%
Operating Expenses	70.1	55.1	27.2%
Net Profit[2/]	26.1	25.0	4.3%
FINANCIAL PERFORMANCE INDICATORS			
Profitability			
Return on Average Common Equity	12.6%	13.6%	
Return on Average Assets	1.2%	1.3%	
Margins and Liquidity			
Net Interest Margin	3.24%	3.17%	
Gross Customer Loans to Deposit Ratio	77.8%	76.9%	
Liquid Assets to Total Assets	33.5%	33.8%	
Cost Efficiency			
Cost to Income Ratio	65.4%	62.0%	
Cost to Average Assets Ratio	3.2%	2.8%	
Asset Quality			
NPL to Gross Customer Loans	1.3%	1.2%	
NPL Cover	139.3%	166.1%	
Capital and Leverage			
CET 1 Ratio[3/]	10.7%	11.4%	
Tier 1 Ratio[3/]	11.0%	11.7%	
Capital Adequacy Ratio[3/]	12.4%	13.3%	
Assets to Equity	10.7x	10.2x	

	2016	2015	CHANGE
DISTRIBUTION NETWORK AND MANPOWER			
Branches	1,104	1,029	7.3%
ATMs	3,655	3,195	14.4%
Employees	31,443	28,217	11.4%
SHAREHOLDER INFORMATION			
Market Value			
Share Price (in Php)	112.10	105.00	6.8%
Market Capitalization (in billion Php)	409.16	382.76	6.9%
Valuation			
Earnings per Share (in Php)	7.06	6.84	3.2%
Book Value per Share (in Php)	57.98	53.17	9.1%
Price-Earnings Ratio	15.9x	15.4x	
Price to Book Value	1.9x	2.0x	
Dividends			
Cash Dividends Paid to Common Shareholders (in billion Php)	4.38	7.56	
Cash Dividends per Common Share (in Php)	1.20	2.10	
Dividend Payout Ratio[4/]	16.8%	30.2%	
Dividend Yield[5/]	1.1%	2.0%	
Stock Dividends per share	-	-	

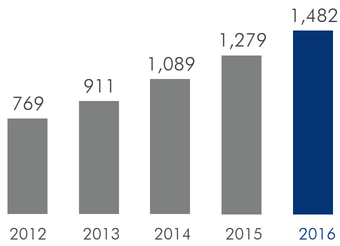
1/ Total capital accounts, inclusive of minority interest and preferred shares
2/ Net Income attributable to shareholders of the parent bank
3/ Based on audited financial statements
4/ Cash dividends paid during the year divided by net profit for the year
5/ Cash dividends per share paid during the year divided by average daily closing price for the year

Historical Trends & Figures

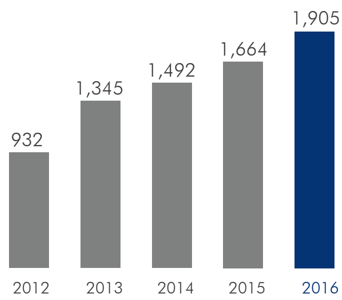
RESOURCES



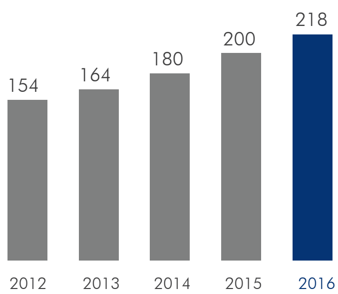
GROSS CUSTOMER LOANS



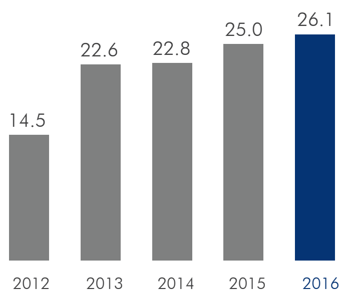
DEPOSIT LIABILITIES



CAPITAL FUNDS



NET INCOME*



**Attributable to shareholders of the parent bank*

(In Billion Php)

Industry
Leading,
Nation
Building

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 three board members (all of whom are independent directors), and assisted by three advisers, the BAC conducted twelve regular meetings in 2016.

In performing its oversight responsibilities set forth in its Terms of Reference, 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, 2016 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.
    - Reviewed and discussed with Management the quarterly unaudited financial statements and results of operations 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, manpower resources, as well as changes to the plan during the year.
    - Reviewed the Internal Audit Charter.
    - Regularly received audit reports, reviewed and discussed high and moderate risk findings relating to operational, financial and compliance controls including risk management systems with impact to financials, reputation and information security.
    - Invited key management officers to discuss high risk issues and their action plans to resolve or mitigate the same. The Committee continued to keep track of the timely resolution of findings including updates on Information Technology's security controls and action plans in further strengthening IT risk management.
    - Approved and endorsed to the Board the engagement of an accredited third party that conducted the External Quality Assurance Review. The review assessed that BDO's Internal Audit Function generally conforms with the definition of Internal Auditing, Code of Ethics and International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.
    - Assessed the performance of the Chief Internal Auditor and key Audit Officers.

3. On its oversight function over External Audit

    - Approved and endorsed to the Board the re-appointment of the Bank's External Auditor.
    - Discussed and reviewed with the External Auditor the content of the engagement letter including 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 and action taken on 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 and compliance roadmaps, 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, compliance to mandatory ratios as well as continuous improvement of the Bank's Compliance and AML system.
    - Discussed in detail the BSP Report of Examination (ROE) as of September 2015 including the results of regulatory examinations of the Bank's foreign subsidiaries 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 impact to 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.

As part of the Board's continuing education program, the BAC members attended the Corporate Governance Briefing on Cybersecurity on September 14, 2016.

The Audit Committee conducted its yearly self-assessment, enabling the Committee to gauge its own performance in the year 2016 in relation to its Terms of Reference, which was also reviewed. The BAC, likewise 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 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

Statement of Management's Responsibility for Financial Statements

The management of **BDO Unibank, Inc. (the Bank)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Punongbayan & Araullo, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Teresita T. Sy	Nestor V. Tan	Pedro M. Florescio III
Chairman of the Board	President	Treasurer

Signed this 24th day of February 2017

Report of Independent Auditors

THE BOARD OF DIRECTORS AND STOCKHOLDERS
BDO UNIBANK, INC.
BDO CORPORATE CENTER
7899 MAKATI AVENUE, MAKATI CITY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the 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, 2016 and 2015, 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, 2016, and notes to financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

I. Key Audit Matters Applicable to BDO Unibank Group and the Parent Bank Financial Statements

(a) Proper Valuation of Loans and Other Receivables

Description of the Matter

Under Philippine Accounting Standards (PAS) 39, *Financial Instrument: Recognition and Measurement*, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If there is an objective evidence that an impairment loss 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. An entity 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 an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of critical management judgment. BDO Unibank Group and the Parent Bank recognized both general and specific allowance on loans and other receivables in accordance with the provisions set out under PAS 39.

As of December 31, 2016, BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P1,573,924 million and P1,511,981 million, respectively, which account for 68% and 69% of BDO Unibank Group's and the Parent Bank's total resources, respectively.

BDO Unibank Group's and the Parent Bank's gross loan portfolio is composed of different loan products that required different approach in the assessment of allowance by management. Loan accounts such as corporate and commercial loans are individually assessed for impairment. For those individually assessed loans where objective evidence of impairment exists, an impairment loss is recognized for the amount of difference between the carrying amount of the loan and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate. Meanwhile, for those individually assessed loans where objective evidence of impairment does not exist, BDO Unibank Group and Parent Bank include them for collective assessment of impairment.

On the other hand, loan portfolio comprising of loans with smaller loan values and spread to great number of customers, such as small business loans and consumer loans, were not monitored individually but were grouped by product and are collectively evaluated for impairment. Impairment loss is recognized for the amount computed using the loan impairment factor (LIF) model. Under LIF model, for each loan product, loans are grouped based on their delinquency bucket (based on aging) and an equivalent LIF for each bucket is applied to compute for the amount of impairment loss. LIF pertains to the historical loss experience of each delinquency bucket for each loan product, adjusted on the basis of the current observable data. LIF and delinquency bucket are different for each loan product. On the other hand, if there are specific loans which are collectively assessed for impairment that are identified to require higher allowance for credit losses due to individual credit judgment, then the higher assessment will be booked for those accounts.

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and the related credit risk are included in Notes 4 and 10 to the financial statements, respectively.

How the Matter was Addressed in the Audit

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

- testing of controls, as assisted by our own IT specialists, over the approval, recording and monitoring of loans and other receivables, loan classification based on credit ratings, and the recording and calculating of the allowance for impairment;
- obtaining an understanding of BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process;
- checking and evaluating the methodologies, inputs and assumptions used by BDO Unibank Group and the Parent Bank in performing both individual and collective impairment assessment in accordance with PAS 39;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts;
- on selected loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection on selected non-performing loans;
- for loan accounts assessed individually, recomputing the recoverable amount determined by BDO Unibank Group and the Parent Bank and comparing it against the carrying value as of December 31, 2016;

- evaluating the suitability of delinquency bucket used by BDO Unibank Group and the Parent Bank by comparing the actual payment history and agreed payment schedule for selected loan accounts; and,
- assessing the reasonableness of each loan impairment factor through recomputation using the historical and current data of BDO Unibank Group and the Parent Bank.

(b) Valuation of Financial Instruments

Description of the Matter
The fair valuation of financial instruments of BDO Unibank Group and Parent Bank was a key area of focus in our audit due to the use of inputs from external sources in computing the market value of these financial instruments. For some financial instruments such as derivatives, the determination of fair value includes the use of estimates by the management. The fair value of derivative financial instruments was determined using the net present value computation. To the extent practicable, models used observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations required management to make estimates.

As of December 31, 2016, the financial assets and financial liabilities of BDO Unibank Group that were carried at fair value amounted to P121,913 million and P5,475 million, respectively, while that of the Parent Bank amounted to P66,744 million and P1,818 million, respectively.

The disclosures of the BDO Unibank Group and the Parent Bank on exposure to financial instruments valuation risk are included in Note 4 to the financial statements.

How the Matter was Addressed in the Audit
Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate;
- recomputing the fair values based on the inputs and compared with the market values used by BDO Unibank Group and the Parent Bank;
- testing of controls over the valuation process of BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments;
- checking the formulas used in fair market valuation; and,
- testing the inputs against reliable market sources, such as Bloomberg.

(c) Reclassification of Available-for-sale (AFS) Securities to Held-to-Maturity (HTM) Investments

Description of the Matter
After the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 million and P103,014 million, respectively, to HTM investments. Under PAS 39, HTM investments pertain to non-derivative financial assets which have fixed or determinable payments and fixed maturity. The management of BDO Unibank Group and the Parent Bank exercise critical judgments in evaluating their intention and ability to hold such reclassified investments up to maturity.

The disclosures of the BDO Unibank Group and the Parent Bank on HTM investments are included in Note 9 to the financial statements.

How the Matter was Addressed in the Audit
Our audit procedures, included among others, the following:

- testing of controls over measurement and recording of investments;
- checking the characteristics of AFS securities reclassified to HTM investments and the measurement of HTM investments at amortized cost using effective interest method;
- analyzing the monthly movements of HTM investments to validate that there were no disposals prior to their maturity dates;
- obtaining the liquidity gap analysis of BDO Unibank Group and the Parent Bank to evaluate the ability to hold such reclassified investments up to maturity; and,
- recomputing the amount of unrealized fair value gain related to the reclassified AFS initially recorded in the other comprehensive income that should be amortized to profit or loss as well as the should be remaining balance of the unamortized unrealized fair value gain.

II. Key Audit Matters Applicable to BDO Unibank Group Financial Statements

(a) Goodwill

Description of the Matter
Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of P3,046 million as of December 31, 2016 is material to BDO Unibank Group's financial statements and the management's process in assessing recoverability of goodwill,

which is based on market participant approach, is considered complex and involves critical management judgment. In using the market participant approach, BDO Unibank Group determined the fair market value of the reporting unit where the goodwill was allocated, such as One Network Bank (ONB), a subsidiary, by deriving market multiples for the reporting unit based on assumptions that potential market participants would use in establishing a bid price for the reporting unit. This approach therefore assumed that strategic initiatives will result in improvements in operational performance in the event of purchase.

The BDO Unibank Group's disclosures about goodwill are included in Note 13.

How the Matter was Addressed in the Audit
Our audit procedures included, among others, the evaluation of the assumptions and methodologies used by BDO Unibank Group, particularly those relating to the fair market valuation of ONB. We checked the estimate of the fair value of ONB using the best information available, which was based on the executed purchase price per share of ONB as agreed by TPG Growth III SF Pte. Ltd., purchaser of certain percentage of ownership in ONB, and the Parent Bank, seller. The share purchase agreement was approved by the BSP on December 23, 2016, subject to the closing conditions in the agreement. We also compared the excess of the fair value of ONB over the carrying value of its net assets as of December 31, 2016 against the carrying amount of goodwill.

(b) Accounting for Business Combination

Description of the Matter
In 2015, BDO Unibank Group has an outstanding 40% equity investment in BDO Life Assurance Holdings Corp. (BDO Life). On June 22, 2016, the Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life for cash consideration and other charges amounting to P2,236 million, making the latter a wholly-owned subsidiary of the former. BDO Unibank Group applied the acquisition method to account for this business combination achieved in stages. In accordance with PFRS 3, *Business Combination*, BDO Unibank Group recognized the negative goodwill or gain on acquisition amounting to P1,586 million from the excess of the acquisition-date fair value of the identifiable resources acquired and the liabilities assumed from BDO Life over the aggregate of the acquisition-date fair values of consideration transferred and the previously-held equity interest. Such amount is considered material to BDO Unibank Group's financial statements. Moreover, the transaction involved remeasurement of BDO Unibank Group's previously held equity interest in BDO Life and the valuation of its net assets at their acquisition-date fair values where significant estimates were applied. The

remeasurement of the previously-held interest in BDO Life at its acquisition-date fair value resulted in the recognition of fair value gain amounting to P628 million. We, therefore, identified accounting for this business combination as a significant matter to our audit.

The BDO Unibank Group's disclosures of the business combination are included in Note 28 to the financial statements.

How the Matter was Addressed in the Audit
Our audit procedures, included among others, the following:

- reading the relevant minutes of meeting and executed share purchase agreement;
- testing the reasonableness of the fair value of the identifiable assets and liabilities of BDO Life and the previously held equity interest at its acquisition date;
- examining the cash consideration transferred by BDO Unibank Group to the former stockholders of BDO Life; and,
- recomputing the resulting fair value gain on the remeasurement of the previously-held interest in BDO Life and the gain on acquisition or negative goodwill by comparing the aggregate of the cash consideration transferred and acquisition-date fair value of the previously-held interest against the acquisition-date fair value of the net assets of BDO Life.

III. Key Audit Matters on the Parent Bank Financial Statements

(a) Effects of Amendments to an Accounting Standard

Description of the Matter
Effective January 1, 2016, PAS 27 (Amendments), *Separate Financial Statements - Equity Method in Separate Financial Statements*, provides a third option which permits an entity to account for its investment in subsidiaries, associates and joint ventures under equity method in its separate financial statements in addition to the current option of accounting those investments at cost or at fair value in accordance with PAS 39. Accordingly, the Parent Bank changed its accounting policy in accounting for its investments in subsidiaries and associates from cost method to equity method in its separate financial statements in accordance with PAS 27. This is also in compliance with the mandatory requirement of BSP, through its Circular No. 915, *Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*, for banks and non-bank financial institutions to measure its equity investments using equity method in its separate financial statements.

The change in its accounting policy required the Parent Bank to restate its comparative financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the retrospective effects of the use of equity method in measuring its investments in subsidiaries and associates. The adjustments made were significant to the Parent Bank's financial statements; therefore, we identified the effects of the amendments to PAS 27 and compliance with BSP Circular No. 915, as a significant matter to our audit.

The disclosures of the Parent Bank on the retrospective effects of the use of equity method in measuring its investments in subsidiaries and associates, and the carrying amounts of the investments in subsidiaries and associates are included in Notes 2 and 13 to the financial statements, respectively.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement arising from the change in the Parent Bank's policy in accounting for its investments in subsidiaries and associates included, among others, the following:

- checking the financial information of subsidiaries and associates that were used by the Parent Bank in measuring its investments using equity method of accounting; and,
- determining the appropriateness of retrospective adjustments made by the Parent Bank.

Other Information

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the BDO Unibank Group's and the Parent Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDO Unibank Group's and the Parent Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 29 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2016 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 PFRS. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Romualdo V. Murcia III.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 5908631, January 3, 2017, Makati City

SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

STATEMENTS OF FINANCIAL POSITION

BDO UNIBANK, INC. AND SUBSIDIARIES

DECEMBER 31, 2016 AND 2015
(WITH CORRESPONDING FIGURES AS OF JANUARY 1, 2015)
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Notes	BDO Unibank Group		Parent Bank		
		December 31, 2016	December 31 2015	**December 31, 2016**	December 31 2015 (As Restated – see Note 2)	January 1, 2015 (As Restated – see Note 2)
RESOURCES						
CASH AND OTHER CASH ITEMS	7	**P 40,909**	P 42,729	**P 39,813**	P 41,767	P 41,237
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**318,002**	271,808	**304,285**	260,841	258,416
DUE FROM OTHER BANKS	8	**41,794**	24,837	**33,463**	20,944	43,165
TRADING AND INVESTMENT SECURITIES	9	**269,042**	225,759	**207,886**	196,500	195,449
LOANS AND OTHER RECEIVABLES – Net	10	**1,573,924**	1,382,752	**1,511,981**	1,323,311	1,182,184
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net	11	**26,912**	24,995	**22,430**	21,152	18,917
INVESTMENT PROPERTIES – Net	12	**15,188**	14,633	**11,784**	11,403	10,858
OTHER RESOURCES – Net	13	**39,187**	43,741	**57,449**	62,660	53,360
TOTAL RESOURCES		**P 2,324,958**	P 2,031,254	**P 2,189,091**	P 1,938,578	P 1,803,586
LIABILITIES AND EQUITY						
DEPOSIT LIABILITIES	15	**P 1,905,204**	P 1,663,853	**P 1,833,013**	P 1,603,047	P 1,464,089
BILLS PAYABLE	16	**100,556**	97,543	**75,800**	76,867	85,069
SUBORDINATED NOTES PAYABLE	17	**10,030**	10,030	**10,030**	10,030	10,030
INSURANCE CONTRACT LIABILITIES	18	**20,548**	–	**–**	–	–
OTHER LIABILITIES	19	**71,085**	60,215	**55,320**	49,371	65,358
Total Liabilities		**2,107,423**	1,831,641	**1,974,163**	1,739,315	1,624,546
EQUITY	20					
Attributable to:						
Shareholders of the Parent Bank		**216,792**	198,990	**214,928**	199,263	179,040
Non-controlling Interests		**743**	623	**–**	–	–
		217,535	199,613	**214,928**	199,263	179,040
TOTAL LIABILITIES AND EQUITY		**P 2,324,958**	P 2,031,254	**P 2,189,091**	P 1,938,578	P 1,803,586

See Notes to Financial Statements.

STATEMENTS OF INCOME

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS EXCEPT PER SHARE DATA)

		BDO Unibank Group			Parent Bank		
	Notes	2016	2015	2014	2016	2015 (As Restated – see Note 2)	2014 (As Restated – see Note 2)
INTEREST INCOME	21	P 82,037	P 72,127	P 63,583	P 76,647	P 68,519	P 60,871
INTEREST EXPENSE	22	16,413	15,166	12,358	14,989	14,238	11,728
NET INTEREST INCOME		65,624	56,961	51,225	61,658	54,281	49,143
IMPAIRMENT LOSSES – Net	9, 13, 14	3,815	3,000	5,114	3,003	2,709	5,014
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		61,809	53,961	46,111	58,655	51,572	44,129
OTHER OPERATING INCOME	23	41,620	31,939	29,487	27,353	28,645	27,033
OTHER OPERATING EXPENSES	23	70,139	55,144	48,530	56,379	50,394	44,836
PROFIT BEFORE PRE-ACQUISITION INCOME		33,290	30,756	27,068	29,629	29,823	26,326
PRE-ACQUISITION INCOME	28	(391)	–	–	–	–	–
PROFIT BEFORE TAX		32,899	30,756	27,068	29,629	29,823	26,326
TAX EXPENSE	29	6,797	5,701	4,240	5,713	4,829	3,522
NET PROFIT		P 26,102	P 25,055	P 22,828	P 23,916	P 24,994	P 22,804
Attributable to:							
Shareholders of the Parent Bank		P 26,090	P 25,016	P 22,805			
Non-controlling Interests		12	39	23			
		P 26,102	P 25,055	P 22,828			
Earnings Per Share:	30						
Basic		P 7.06	P 6.84	P 6.27	P 6.47	P 6.83	P 6.27
Diluted		P 7.06	P 6.84	P 6.27	P 6.47	P 6.83	P 6.27

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Notes	BDO Unibank Group 2016	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2016	Parent Bank 2015 (As Restated – see Note 2)	Parent Bank 2014 (As Restated – see Note 2)
NET PROFIT		**P 26,102**	P 25,055	P 22,828	**P 23,916**	P 24,994	P 22,804
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	**(943)**	(2,457)	(2,440)	**899**	(1,498)	(2,846)
Transfer of realized losses (gains) on disposed AFS securities to statements of income, net of tax		**(2,959)**	(2,711)	2,545	**(2,355)**	(3,278)	2,796
Transfer of realized losses on impaired AFS securities to statements of income, net of tax		**346**	1,841	–	**–**	1,841	–
Transfer of amortized unrealized fair value losses on reclassified AFS securities to HTM investments to statements of income		**275**	–	–	**292**	–	–
Net gains (losses) on AFS securities, net of tax		**(3,281)**	(3,327)	105	**(1,164)**	(2,935)	(50)
Translation adjustment related to foreign operations		**78**	19	76	**2**	8	(6)
		(3,203)	(3,308)	181	**(1,162)**	(2,927)	(56)
Items that will not be reclassified to profit or loss:							
Actuarial loss on remeasurement of retirement benefit asset, net of tax	24	**(645)**	(147)	(60)	**(516)**	(186)	(63)
Reversal of revaluation increment		**–**	(19)	–	**–**	(19)	–
		(645)	(166)	(60)	**(516)**	(205)	(63)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method		**1**	(356)	269	**(2,095)**	(414)	497
Total Other Comprehensive Income (Loss), net of tax		**(3,847)**	(3,830)	390	**(3,773)**	(3,546)	378
TOTAL COMPREHENSIVE INCOME		**P 22,255**	P 21,225	P 23,218	**P 20,143**	P 21,448	P 23,182
Attributable to:							
Shareholders of the Parent Bank		**P 22,196**	P 21,179	P 23,184			
Non-controlling Interests		**59**	46	34			
		P 22,255	P 21,225	P 23,218			

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,118	(P 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613
Transactions with owners	20														
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	-	238	-	238
Cash dividends		-	-	-	-	-	(4,716)	-	-	-	-	-	(4,716)	(50)	(4,766)
		47	-	191	-	-	(4,716)	-	-	-	-	-	(4,478)	(50)	(4,528)
Total comprehensive income (loss)		-	-	-	-	-	26,090	(3,297)	(645)	-	47	1	22,196	59	22,255
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	240	-	(240)	-	-	-	-	-	-	-	-
		-	-	-	276	-	(276)	-	-	-	-	-	-	-	-
Other adjustments	20, 28														
Change in ownership interest in subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	111	111
Consolidation of a new subsidiary		-	-	-	-	-	-	-	-	-	-	84	84	-	84
		-	-	-	-	-	-	-	-	-	-	84	84	111	195
BALANCE AT DECEMBER 31, 2016		**P 36,500**	**P 5,150**	**P 70,127**	**P 2,972**	**P 12**	**P109,216**	**(P 3,919)**	**(P 4,259)**	**P 1,008**	**(P 13)**	**(P 2)**	**P 216,792**	**P 743**	**P217,535**

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	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 2,709	(P 3,467)	P 1,027	(P 76)	P 269	P 179,036	P 633	P 179,669
Transactions with owners	20, 28														
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	(3,331)	(147)	(19)	16	(356)	21,179	46	21,225
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	27	-	(27)	-	-	-	-	-	-	-	-
Reversal of appropriation during the year	20	-	-	-	(1,000)		1,000	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	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 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
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 -	P 163,711	P 643	P 164,354
Transaction with owners															
Cash dividends	20	-	-	-	-	-	(7,859)	-	-	-	-	-	(7,859)	(44)	(7,903)
Total comprehensive income (loss)		-	-	-	-	-	22,805	100	(60)	-	70	269	23,184	34	23,218
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	268	-	(268)	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	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 2,709	(P 3,467)	P 1,027	(P 76)	P 269	P 179,036	P 633	P 179,669

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2016												
As previously stated		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 –	P 190,689
Effect of using equity method	2	–	–	–	–	8,663	–	–	–	–	(89)	8,574
As restated		36,453	5,150	69,917	2,028	88,804	(524)	(3,491)	1,005	10	(89)	199,263
Transactions with owners	20											
Issuance of shares during the year		47	–	191	–	–	–	–	–	–	–	238
Cash dividends		–	–	–	–	(4,716)	–	–	–	–	–	(4,716)
		47	–	191	–	(4,716)	–	–	–	–	–	(4,478)
Total comprehensive income (loss)		–	–	–	–	23,916	(1,164)	(516)	–	2	(2,095)	20,143
Transfer from Surplus Free												
Appropriation during the year	20	–	–	–	28	(28)		–	–	–	–	–
Trust reserve	20, 26	–	–	–	182	(182)	–	–	–	–	–	–
		–	–	–	210	(210)	–	–	–	–	–	–
BALANCE AT DECEMBER 31, 2016		**P 36,500**	**P 5,150**	**P 70,108**	**P 2,238**	**P 107,794**	**(P 1,688)**	**(P 4,007)**	**P 1,005**	**P 12**	**(P 2,184)**	**P214,928**

See Notes to Financial Statements.

Statements of Changes in Equity

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2015												
As previously stated		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 –	P 168,527
Effect of using equity method	2	–	–	–	–	10,188	–	–	–	–	325	10,513
As restated		35,808	5,150	63,889	1,832	71,904	2,411	(3,305)	1,024	2	325	179,040
Transactions with owners												
Issuance of shares during the year	20, 28	645	–	6,028	–	–	–	–	–	–	–	6,673
Cash dividends	20	–	–	–	–	(7,898)	–	–	–	–	–	(7,898)
		645	–	6,028	–	(7,898)	–	–	–	–	–	(1,225)
Total comprehensive income (loss)		–	–	–	–	24,994	(2,935)	(186)	(19)	8	(414)	21,448
Transfer from Surplus Free												
Appropriation during the year	20	–	–	–	25	(25)		–	–	–	–	–
Trust reserve	20, 28	–	–	–	171	(171)	–	–	–	–	–	–
		–	–	–	196	(196)	–	–	–	–	–	–
BALANCE AT DECEMBER 31, 2015		P 36,453	P 5,150	P 69,917	P 2,028	P 88,804	(P 524)	(P 3,491)	P 1,005	P 10	(P 89)	P 199,263

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(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 Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2014												
As previously stated		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 -	P 153,708
Effect of using equity method	2	-	-	-	-	10,181	-	-	-	-	(172)	10,009
As restated		35,808	5,150	63,889	1,575	57,216	2,461	(3,242)	1,024	8	(172)	163,717
Transactions with owners												
Cash dividends	20	-	-	-	-	(7,859)	-	-	-	-	-	(7,859)
Total comprehensive income (loss)		-	-	-	-	22,804	(50)	(63)	-	(6)	497	23,182
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	101	(101)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	156	(156)	-	-	-	-	-	-
		-	-	-	257	(257)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		P 35,808	P 5,150	P 63,889	P 1,832	P 71,904	P 2,411	(P 3,305)	P 1,024	P 2	P 325	P 179,040

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

		BDO Unibank Group			Parent Bank		
	Notes	2016	2015	2014	2016	2015 (As Restated – see Note 2)	2014 (As Restated – see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 32,899**	P 30,756	P 27,068	**P 29,629**	P 29,823	P 26,326
Adjustments for:							
Interest income	21	**(82,037)**	(72,127)	(63,583)	**(76,647)**	(68,519)	(60,871)
Interest received		**80,887**	71,124	62,529	**75,720**	67,778	60,122
Interest expense	22	**16,413**	15,166	12,358	**14,989**	14,238	11,728
Interest paid		**(16,344)**	(15,188)	(12,496)	**(14,969)**	(14,344)	(11,855)
Depreciation and amortization	11, 12, 13	**4,782**	3,961	3,262	**3,668**	3,085	2,640
Impairment losses	9, 13, 14	**3,815**	3,000	5,114	**3,003**	2,709	5,014
Income from acquisition of a subsidiary	28	**(2,214)**	–	(18)	**–**	–	–
Share in net profit of subsidiaries and associates	13	**(481)**	(837)	(652)	**(3,516)**	(2,276)	(2,368)
Fair value loss (gain)	9	**(96)**	(121)	(37)	**45**	(167)	(65)
Operating profit before changes in operating resources and liabilities		**37,624**	35,734	33,545	**31,922**	32,327	30,671
Decrease (increase) in financial assets at fair value through profit or loss		**1,988**	(4,714)	1,076	**1,076**	66	(1,327)
Increase in loans and other receivables		**(248,384)**	(188,091)	(216,173)	**(241,321)**	(231,297)	(200,655)
Decrease (increase) in investment properties		**(794)**	1,072	(1,377)	**(624)**	(981)	(1,389)
Decrease (increase) in other resources		**(3,612)**	(9,496)	(11,000)	**2,722**	(5,447)	(5,553)
Increase in deposit liabilities		**241,312**	171,671	147,105	**229,972**	139,112	147,110
Increase in insurance contract liabilities		**2,638**	–	–	**–**	–	–
Increase (decrease) in other liabilities		**13,005**	(18,308)	18,543	**10,423**	(13,863)	9,907
Cash generated from (used in) operations		**43,777**	(12,132)	(28,281)	**34,170**	(80,083)	(21,236)
Cash paid for income tax		**(6,528)**	(4,090)	(4,160)	**(5,342)**	(3,211)	(3,589)
Net Cash From (Used in) Operating Activities		**37,249**	(16,222)	(32,441)	**28,828**	(83,294)	(24,825)

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

		BDO Unibank Group			Parent Bank		
	Notes	2016	2015	2014	2016	2015 (As Restated – see Note 2)	2014 (As Restated – see Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from disposals of available-for-sale securities (AFS)		**P 92,532**	P 449,636	P 383,247	**P 63,539**	P 493,842	P 373,079
Acquisitions of AFS	9	**(77,520)**	(453,010)	(377,961)	**(40,953)**	(437,205)	(360,013)
Acquisitions of held-to-maturity (HTM) investments	9	**(49,939)**	–	–	**(48,139)**	–	–
Maturities of HTM investments		**12,300**	–	–	**11,938**	–	–
Acquisitions of premises, furniture, fixtures and equipment	11	**(5,537)**	(6,963)	(5,970)	**(3,811)**	(4,439)	(4,712)
Acquisition of a subsidiary	28	**(2,298)**	–	–	**(2,298)**	–	–
Proceeds from disposals of premises, furniture, fixtures and equipment		**144**	126	194	**30**	73	87
Net Cash From (Used in) Investing Activities		**(30,318)**	(10,211)	(490)	**(19,694)**	52,271	8,441
CASH FLOWS FROM FINANCING ACTIVITIES							
Dividends paid	19	**(4,766)**	(7,941)	(7,903)	**(4,716)**	(7,898)	(7,859)
Net proceeds from (payments of) bills payable		**2,983**	(2,896)	6,100	**(1,093)**	(8,250)	2,216
Proceeds from issuance of common stock		**238**	–	–	**238**	–	–
Proceeds from issuance of subordinated notes payable	17	**–**	–	7,023	**–**	–	7,023
Net Cash From (Used in) Financing Activities		**(1,545)**	(10,837)	5,220	**(5,571)**	(16,148)	1,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Carried Forward)*		**P 5,386**	(P 37,270)	(P 27,711)	**P 3,563**	(P 47,171)	(P 15,004)

See Notes to Financial Statements.

Statements of Cash Flows

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

		BDO Unibank Group			Parent Bank		
	Notes	2016	2015	2014	2016	2015	2014
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		**P 5,386**	(P 37,270)	(P 27,711)	**P 3,563**	(P 47,171)	(P 15,004)
CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY	28	**851**	3,294	–	**–**	–	–
CASH AND CASH EQUIVALENTS AT BEGINNING 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
		412,108	446,084	473,795	**385,226**	432,397	447,401
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**40,909**	42,729	41,342	**39,813**	41,767	41,237
Due from Bangko Sentral ng Pilipinas	7	**318,002**	271,808	269,542	**304,285**	260,841	258,416
Due from other banks	8	**41,794**	24,837	45,621	**33,463**	20,944	43,165
Securities purchased under reverse repurchase agreement	10	**14,302**	69,490	86,173	**7,891**	58,431	86,173
Foreign currency notes and coins	13	**3,338**	3,244	3,406	**3,337**	3,243	3,406
		P 418,345	P 412,108	P 446,084	**P 388,789**	P 385,226	P 432,397

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

BDO UNIBANK, INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value at the reclassification date of P107,362 and P103,014, respectively, and unrealized fair value losses of P2,181 and P2,269, respectively, to HTM investments. Of the reclassified unrealized fair value losses, a total of P275 and P292 were amortized by BDO Unibank Group and the Parent Bank, respectively, in 2016 resulting in unamortized fair value losses of P1,906 and P1,977, respectively, as of December 31, 2016 (see Note 9).

b. On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life Assurance Holdings Corp. (BDO Life) (formerly Generali Pilipinas Holding Company, Inc.) from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. As of the date of acquisition, the fair value of previously-held interest of the Parent Bank, total resources and total liabilities of BDO Life amounted to P2,549, P27,454 and P21,083, respectively. The transaction resulted in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase or negative goodwill amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214 (see Note 28).

c. 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 totalled 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. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).

d. 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 28).

e. BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P10,342 and P10,074, respectively, in 2016, P10,135 and P9,840, respectively, in 2015, and P11,790 and P11,451, respectively, in 2014, in settlement of certain loan accounts (see Note 12).

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).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

BDO UNIBANK, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(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 Securities and Exchange Commission granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 or until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private, insurance 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, life insurance and insurance brokerage, credit card services, stock brokerage, 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 or Republic Act No. 8791.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2016, BDO Unibank Group had 1,104 branches (including one foreign branch), 1,955 on-site and 1,700 off-site automated teller machines (ATMs) and 328 cash accept machines (CAMs). As of December 31, 2016, the Parent Bank had 982 branches (including one foreign branch), 1,791 on-site and 1,644 off-site ATMs and 328 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, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.1%, 1.1% and 1.3% of BDO Unibank Group's total revenues in 2016, 2015 and 2014, respectively, and 1.2% of BDO Unibank Group's total resources both as of December 31, 2016 and 2015, 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, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014, and the corresponding figures for the Parent Bank's financial statements as of January 1, 2015) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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 resources, 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.

The Parent Bank made adjustments to its separate financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014, and the corresponding figures as of January 1, 2015 as a result of the change in accounting for its investment in subsidiaries from cost method to equity method. This is in line with the adoption of PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, effective January 1, 2016, wherein it provides a third option permitting an entity to account for its investment in subsidiaries, associates and joint ventures under equity method in its separate financial statements in addition to the current option of accounting those investments at cost or at fair value in accordance with PAS 39, *Financial Instruments – Recognition and Measurement*.

While the amendment indicates that it is an option, the BSP, through its Circular No. 915, made it a mandatory requirement for banks and non-bank financial institutions to measure such investments using equity method in the Parent Bank's financial statements. As a result, the 2015 comparative financial statements and the January 1, 2015 corresponding figures contained in the Parent Bank's financial statements differ from those previously presented in the Parent Bank's financial statements for the years ended December 31, 2015 and 2014 as shown in the reconciliations that follow:

	As Previously Reported	Effects of Using Equity Method	As Restated
December 31, 2015			
Changes in statement of financial position			
Resources –			
Other resources –			
Equity investments – gross	P 23,718	P 8,574	P 32,292
Equity:			
Surplus free	80,141	8,663	88,804
Accumulated share in other comprehensive loss of subsidiaries and associates	–	(89)	(89)
		P 8,574	
Changes in statement of profit or loss and other comprehensive income			
Other operating income:			
Share in net income of subsidiaries and associates	P –	P 2,276	P 2,276
Dividend	4,012	(3,801)	211
Share in other comprehensive loss of subsidiaries and associates	–	(414)	(414)
		(P 1,939)	
Earnings per share (EPS)			
Basic	P 7.25	(P 0.42)	P 6.83
Diluted	7.25	(0.42)	6.83

	As Previously Reported		Effects of Using Equity Method		As Restated
January 1, 2015					
Changes in statement of financial position					
Resources –					
Other resources –					
Equity investments – gross	P	17,027	P 10,513	P	27,540
Equity:					
Surplus free		61,716	10,188		71,904
Accumulated share in other comprehensive income of subsidiaries and associates		–	325		325
			P 10,513		
December 31, 2014					
Changes in statement of profit or loss and other comprehensive income					
Other operating income:					
Share in net income of subsidiaries and associates	P	–	P 2,368	P	2,368
Dividend income		2,613	(2,361)		252
Share in other comprehensive income of subsidiaries and associates		–	497		497
			P 504		
Earnings per share (EPS)					
Basic	P	6.27	P –	P	6.27
Diluted		6.27	–		6.27

There were no significant changes in the Parent Bank's statements of cash flows for the years ended December 31, 2015 and 2014 as a result of the restatement.

(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 for 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 2016 that are Relevant to BDO Unibank Group

In 2016, BDO Unibank Group adopted for the first time the following amendments and annual improvements to PFRS which are mandatorily effective for annual periods on or after January 1, 2016 for the Group's annual reporting period beginning January 1, 2016:

PAS 1 (Amendments):	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments):	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 27 (Amendments):	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments):	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments):	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
Annual Improvements:	Annual Improvements to PFRS (2012-2014 Cycle)

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

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

(ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or at fair value in accordance with PAS 39 or PFRS 9, *Financial Instruments*. The effect of the adoption of these amendments is presented in Note 2.1(b).

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

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

(vi) Annual Improvements to PFRS (2010-2014 Cycle) and PFRS (2012-2014 Cycle) made minor amendments to a number of PFRS. Among the 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:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.
- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) Effective in 2016 that are not Relevant to BDO Unibank Group

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

PFRS 14:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)	
PFRS 7 (Amendments):	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments):	Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

(c) Effective Subsequent to 2016 but not Adopted Early

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

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

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

(iii) PFRS 2 (Amendments), *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* (effective from January 1, 2018). The amendments contain three changes covering the following matters: (a) the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; (b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, (c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

(iv) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts* (effective from January 1, 2018). The amendments address the temporary accounting consequences of the different effective dates of PFRS 9 and the anticipated new insurance contracts standard by introducing the following options: (a) overlay approach, which is an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; or, (b) an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39.

(v) 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.

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

Management is currently assessing the impact of this standard on BDO Unibank Group's financial statements.

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

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets.

If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

BDO Unibank Group is currently assessing the impact of this new standard in the financial statements.

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

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated 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.

The acquisition method is applied to account for acquired subsidiaries (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 to the former owners of the acquiree 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.

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 initially recognized at cost and subsequently accounted for using the equity method in the Parent Bank's financial statements (see Note 2.11).

(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 2016	2015	2014
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	–	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)	**99.76%**	99.63%	–
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	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)	**99.88%**	100%	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	100%	100%
BDO Nomura Securities, Inc. (BDO Nomura) [previously PCIB Securities, Inc. (PCIB Securities)]	**51.00%**	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 Life Assurance Holdings Corp. (BDO Life) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	**100%**	40.00%	40.00%
BDO Life Assurance Company, Inc. [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	**100%**	40.00%	40.00%
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%
Express Padala Frankfurt GmbH (EPFG)	–	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	**96.32%**	60.00%	60.00%
PCIB Europe S.p.A.	**100%**	100%	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2016 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Securities, Averon, BDO Leasing, BDO Rental, BDO Nomura, ASI, Equimark and CBN Grupo. Non-controlling interests in 2015 represent the interests not held by BDO Unibank Group in ONB, BDO Savings, BDO Leasing, BDO Rental, ASI, Equimark, CBN Grupo and BDO Elite.

On March 21, 2016, EPFG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings were completed (see Note 13.1).

In July 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 28.3).

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 significant changes from prior periods in the measurement methods used to determine reported segment profit or loss (see Note 5).

2.5 Financial Assets

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

(a) 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 presented below and in the succeeding page.

(i) 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.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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, Loans and Other Receivables and certain accounts under Other Resources in the statement of financial position. Cash and cash equivalents consist of cash and other cash items, due from BSP and amounts due from other banks. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also includes 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 securities purchased under reverse repurchase agreement (SPURRA) with original maturities of three months or less from placement date.

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

(iii) 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.

(iv) AFS Securities

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

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, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

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.

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the two preceding financial years' of tainting have passed, it becomes appropriate to carry a financial asset at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable. Any previous gain or loss on that asset that has been recognized in other comprehensive income shall be accounted for as follows:

(i) In the case of a financial asset with a fixed maturity, the gain or loss shall be amortized to profit or loss over the remaining life of the HTM investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

(ii) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

(b) 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. BDO Unibank Group recognizes impairment loss based on the category of financial assets as shown in the succeeding pages.

(i) 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 either individually or collectively. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, 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.

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 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 reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, 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.

Meanwhile, BDO Unibank Group also consider the requirements of BSP Circular No. 855, *Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions*, wherein for those loans where objective evidence of impairment does not exist, whether individually or collectively assessed for impairment, an impairment loss is recognized equivalent to the amount of expected loss computed using the loan loss methodology of BDO Unibank.

(ii) 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.

(iii) 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.

(c) 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.

(d) Derecognition of Financial Assets

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

If BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, 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.

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. 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, estimated useful lives and method of depreciation and amortization 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 to 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 23).

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 are 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 23).

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 the statement of income (see Note 23).

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in subsidiaries and 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 subsidiaries and 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 net profit of Associates account presented as part of Miscellaneous under Other Operating Income (Expenses) account 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 initially carried at cost and adjusted thereafter for the post-acquisition change in the Parent Bank's share of net assets of the investee, which includes the share of the profit or loss and other comprehensive income reduced by any distribution received from the investment (see Notes 2.1, 2.3 and 2.23). However, when the Parent Bank's share of losses in a subsidiary or associate equals or exceeds its interest in the subsidiary or associate, including any other unsecured receivables, the Parent Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or 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.

2.12 Business Combination

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, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

2.14 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists, trademark 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, *Impairment of Assets*, 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.

Trademark pertains to the license granted to the Parent Bank for the exclusive right to use the trademark, service mark, name or logo of Diners Card International, Ltd (DCI) in connection with the Parent Bank's operation of Diners Club card business in the Philippines. The trademark is covered by a trademark license agreement with a term of 5 years, renewable every 5 years, subject to certain conditions set by trademark owner. This intangible asset is recognized at an amount equal to the excess of purchase price for the acquisition of Diners credit card portfolio over the acquisition-date fair value of the net assets acquired. It is amortized on a straight line basis over a finite useful life of five years based on the term of the trademark license agreement, which is deemed to have a finite useful life since renewal is not guaranteed.

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, insurance contract liabilities 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 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.
- *Insurance contract liabilities* arose from the following types of insurance contract:

  - *Life insurance contract*

    Liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing at the inception of the contract. Assumptions and actuarial valuation methods are also subject to the provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission (IC). The movement in legal policy reserves at each reporting period is recognized in profit or loss.

  - *Insurance contracts with fixed and guaranteed terms*

    Liabilities are determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

    BDO Unibank Group has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, which require annual discount rates to be not more than 6% and mortality rates based on a standard table of mortality approved by the IC. Reserves are computed per thousand of sum insured and depend on the plan, issue age and policy duration.

  - *Variable unit-linked insurance contracts.*

    BDO Unibank Group, through BDO Life, issues unit-linked insurance contracts. In addition to providing insurance coverage, a unit-linked contract links payments to units of an internal investment fund set up by BDO Unibank Group with the consideration received from the policyholders. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. As allowed by PFRS 4, BDO Unibank Group chose not to unbundle the investment portion of its unit-linked products.

    The reserve for unit-linked liability is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, mortality and surrender charges and any withdrawals. At each reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds. The assets and liabilities underlying the internal investment funds have been consolidated with the general accounts of BDO Unibank Group.

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

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 issuance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20.5).

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 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 foreign 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 to any of the subsidiaries of BDO Unibank Group (see Note 20.6).

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).

(h) Insurance premiums – Premiums from life insurance contracts are recognized as revenue when payable by the policyholders. For single premium contracts, revenue is recognized upon the effective date of the policy. For regular premium contracts, revenues are recorded at the date when payments are due.

(i) Insurance benefits and claims – Life insurance benefits and claims include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

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 equity investments, goodwill, branch licenses, trading rights, trademark 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, Canadian Dollar (CAD), 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, CAD, 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 is 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, CAD, 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 24):

(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 & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in 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 account 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) Employee Stock Option Plan (ESOP)

BDO Unibank Group has a stock option plan for 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 options allocated to the qualified officers is based on the performance of the individual officers as determined by management and it requires vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in 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 (a) in the previous page.

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 29).

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 from the unissued authorized capital stock 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 following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

(a) Classification of Financial Assets 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 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value of P107,362 and P103,014, respectively, to HTM investments (see Note 9.3).

(b) 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 2016 and 2015 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinction Between 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) Distinction Between 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) Assessment of Significant Influence on Entities in which BDO Unibank Group Holds Less than 20% Ownership

The management considers that BDO Unibank Group and the Parent Bank has significant influence on Manila North Tollways Corporation (MNTC) even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the BDO Unibank Group's and the Parent Bank's voting rights which is based from its acquired right to nominate for a director in MNTC as granted in the Amended and Restated Shareholders' Agreement (ARSA).

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of MNTC, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of MNTC. Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.21 and relevant disclosures are presented in Note 33.

3.2 Key Sources of Estimation Uncertainty

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

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

BDO Unibank Group reviews its AFS securities [see also Note 3.1 (b)], 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.

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) Determination of 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) Estimation of Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark, 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, including trademark, 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 resources, including trademark, are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2016 and 2015, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other resources, including trademark, during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determination of 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 (see 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) Determination of 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, 2016 and 2015 is disclosed in Note 29.1.

(g) Impairment of Non-financial Assets

Except for certain 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 24 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 24.

(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 19.

(j) Valuation of Legal Policy Reserves

Legal policy reserves represent estimates of present value of benefits in excess of present value of premium. These estimates are based on interest rates, mortality/morbidity tables, and valuation method as contained in the product submissions approved by the IC.

The liability for life insurance contracts are based on assumptions established at the inception of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, investment return, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths for each of the years in which BDO Unibank Group is exposed to risk. BDO Unibank Group uses the standard mortality tables as accepted by the IC as the basis of these estimates. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

In accordance with the provisions of the Code, the annual interest rate used to discount future liabilities should not exceed 6% as required by the Code. Likewise, no lapse, surrender and expense assumptions are factored in the computation of the liability in accordance with the Code.

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.

Risk management at the Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors (BOD) who is responsible for establishing and maintaining a sound risk management system. The Board of Directors has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program of the Bank. Considering the importance of appropriately addressing credit risk, the Board of Directors has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits. 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 functionally reports to the Risk Management Committee.

RMG has responsibility for recommending to the appropriate body, 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.
- 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, 2016 and 2015 in accordance with account classification of the BSP, is presented in the succeeding pages. 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.

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	2016				
	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 40,909	P –	P –	P –	P 40,909
Due from BSP and other banks	359,777	12	3	4	359,796
Loans and other receivables – net	449,361	166,898	207,283	750,382	1,573,924
Trading and investment securities	49,247	11,451	71,814	136,530	269,042
Other resources*	–	–	–	81,287	81,287
Total Resources	899,294	178,361	279,100	968,203	2,324,958
Liabilities and Equity:					
Deposit liabilities	316,442	4,949	18,924	1,564,889	1,905,204
Bills and subordinated notes payable	43,573	8,429	33,641	24,943	110,586
Insurance contract liabilities	(218)**	(1,292)**	(1,130)**	23,188	20,548
Other liabilities	20,569	3,944	3,965	42,607	71,085
Total Liabilities	380,366	16,030	55,400	1,655,627	2,107,423
Equity	–	–	–	217,535	217,535
Total Liabilities and Equity	380,366	16,030	55,400	1,873,162	2,324,958
On-book gap	518,928	162,331	223,700	(904,959)	–
Cumulative on-book gap	518,928	681,259	904,959	–	–
Contingent assets	109,497	44,011	21,765	15,064	190,337
Contingent liabilities	149,235	46,744	21,322	14,807	232,108
Off-book gap	(39,738)	(2,733)	443	257	(41,771)
Net Periodic Gap	479,190	159,598	224,143	(904,702)	41,771
Cumulative Total Gap	**P479,190**	**P638,788**	**P862,931**	**(P 41,771)**	**P –**

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

*** Insurance Contract Liabilities with maturity of one month to three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

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 asset	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)	67,861
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.*

Parent Bank

	2016				
	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 39,813	P –	P –	P –	P 39,813
Due from BSP and other banks	337,744	–	–	4	337,748
Loans and other receivables – net	406,639	149,649	182,503	773,190	1,511,981
Trading and investment securities	40,886	9,141	66,022	91,837	207,886
Other resources*	–	–	–	91,663	91,663
Total Resources	825,082	158,790	248,525	956,694	2,189,091
Liabilities and Equity:					
Deposit liabilities	301,516	4,137	17,447	1,509,913	1,833,013
Bills and subordinated notes payable	28,301	6,827	25,760	24,942	85,830
Other liabilities	19,325	1,491	–	34,504	55,320
Total Liabilities	349,142	12,455	43,207	1,569,359	1,974,163
Equity	–	–	–	214,928	214,928
Total Liabilities and Equity	349,142	12,455	43,207	1,784,287	2,189,091
On-book gap	475,940	146,335	205,318	(827,593)	–
Cumulative on-book gap	475,940	622,275	827,593	–	–
Contingent assets	102,251	20,914	4,781	2,140	130,086
Contingent liabilities	141,816	23,905	4,690	2,120	172,531
Off-book gap	(39,565)	(2,991)	91	20	(42,445)
Net Periodic Gap	436,375	143,344	205,409	(827,573)	42,445
Cumulative Total Gap	**P 436,375**	**P 579,719**	**P 785,128**	**(P 42,445)**	**P –**

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

Parent Bank

	2015 (As Restated)				
	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	–	–	91,971	95,215
Total Resources	725,094	124,517	235,956	853,011	1,938,578
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	–	–	33,985	49,371
Total Liabilities	352,802	19,157	46,474	1,320,882	1,739,315
Equity	–	–	–	199,263	199,263
Total Liabilities and Equity	352,802	19,157	46,474	1,520,145	1,938,578
On-book gap	372,292	105,360	189,482	(667,134)	–
Cumulative on-book gap	372,292	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	(665,396)	68.382
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.*

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 resources less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50, 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, 2016 and 2015 follows:

BDO Unibank Group

	2016			2015		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	P 183	P 358,728	P 358,911	P 64	P 314,473	P 314,537
Due from other banks	38,360	3,434	41,794	24,453	384	24,837
Trading and investment securities:						
At FVTPL	4,091	9,933	14,024	3,513	10,054	13,567
AFS securities	70,746	37,386	108,132	151,029	61,163	212,192
HTM securities	103,493	43,393	146,886	–	–	–
Loans and other receivables	257,580	1,316,344	1,573,924	240,412	1,142,340	1,382,752
Other resources	5,562	770	6,332	5,020	5,367	10,387
	P 480,015	P 1,769,988	P 2,250,003	P 424,491	P 1,533,781	P 1,958,272
Liabilities:						
Deposit liabilities	P 384,021	P 1,521,183	P 1,905,204	P 316,526	P 1,347,327	P 1,663,853
Bills payable	76,177	24,379	100,556	76,865	20,678	97,543
Subordinated notes payable	–	10,030	10,030	–	10,030	10,030
Insurance contract liabilities	6,498	14,050	20,548	–	–	–
Other liabilities	5,794	60,068	65,862	1,372	54,741	56,113
	P 472,490	P 1,629,710	P 2,102,200	P 394,763	P 1,432,776	P 1,827,539

Parent Bank

	2016			2015		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	P 35	P 344,063	P 344,098	P –	P 302,608	P 302,608
Due from other banks	33,424	39	33,463	20,875	69	20,944
Trading and investment securities:						
At FVTPL	2,917	1,381	4,298	2,237	3,179	5,416
AFS securities	53,862	8,775	62,637	144,109	46,975	191,084
HTM securities	102,895	38,056	140,951	–	–	–
Loans and other receivables	258,902	1,253,079	1,511,981	241,803	1,081,508	1,323,311
Other resources	3,468	672	4,140	3,249	7,707	10,956
	P 455,503	P 1,646,065	P 2,101,568	P 412,273	P 1,442,046	P 1,854,319
Liabilities:						
Deposit liabilities	P 368,656	P 1,464,357	P 1,833,013	P 306,278	P 1,296,769	P 1,603,047
Bills payable	75,796	4	75,800	76,843	24	76,867
Subordinated notes payable	–	10,030	10,030	–	10,030	10,030
Other liabilities	4,644	46,472	51,116	1,073	44,662	45,735
	P 449,096	P 1,520,863	P 1,969,959	P 384,194	P 1,351,485	P 1,735,679

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 resources 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, 2016 and 2015 based on the expected interest realization or recognition are shown below and in the succeeding pages.

BDO Unibank Group

	2016					
	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 40,909	P 40,909
Due from BSP and other banks	26,578	6	5	–	333,207	359,796
Loans and other receivables	852,349	115,508	379,742	226,325	–	1,573,924
Trading and investment securities	43,297	11,451	130,840	69,430	14,024	269,042
Other resources*	–	–	–	–	81,287	81,287
Total Resources	922,224	126,965	510,587	295,755	469,427	2,324,958
Liabilities and Equity:						
Deposit liabilities	398,410	58,857	92,720	17,402	1,337,815	1,905,204
Bills and subordinated notes payable	49,903	8,429	41,337	10,030	887	110,586
Insurance contract liabilities					20,548	20,548
Other liabilities	925	2,652	4,086	64	63,358	71,085
Total Liabilities	449,238	69,938	138,143	27,496	1,422,608	2,107,423
Equity	–	–	–	–	217,535	217,535
Total Liabilities and Equity	449,238	69,938	138,143	27,496	1,640,143	2,324,958
On-book gap	472,986	57,027	372,444	268,259	(1,170,716)	–
Cumulative on-book gap	472,986	530,013	902,457	1,170,716	–	–
Contingent assets	15,388	1,727	–	–	–	17,115
Contingent liabilities	15,530	1,740	–	–	–	17,270
Off-book gap	(142)	(13)	–	–	–	(155)
Net Periodic Gap	472,844	57,014	372,444	268,259	(1,170,716)	155
Cumulative Total Gap	**P 472,844**	**P 529,858**	**P 902,302**	**P 1,170,561**	**(P 155)**	**P –**

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

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)	(94)
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.*

Parent Bank

	2016					
	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 39,813	P 39,813
Due from BSP and other banks	16,550	–	–	–	321,198	337,748
Loans and other receivables	852,895	93,332	354,502	211,252	–	1,511,981
Trading and investment securities	38,922	9,141	114,999	40,526	4,298	207,886
Other resources*	–	–	–	–	91,663	91,663
Total Resources	908,367	102,473	469,501	251,778	456,972	2,189,091
Liabilities and Equity:						
Deposit liabilities	358,995	55,880	87,386	17,402	1,313,350	1,833,013
Bills and subordinated notes payable	28,138	6,827	40,835	10,030	–	85,830
Other liabilities	–	1,491	–	–	53,829	55,320
Total Liabilities	387,133	64,198	128,221	27,432	1,367,719	1,974,163
Equity	–	–	–	–	214,928	214,928
Total Liabilities and Equity	387,133	64,198	128,221	27,432	1,582,107	2,189,091
On-book gap	521,234	38,275	341,280	224,346	(1,125,135)	–
Cumulative on-book gap	521,234	559,509	900,789	1,125,135	–	–
Contingent assets	9,867	–	–	–	–	9,867
Contingent liabilities	9,961	–	–	–	–	9,961
Off-book gap	(94)	–	–	–	–	(94)
Net Periodic Gap	521,140	38,275	341,280	224,346	(1,125,135)	94
Cumulative Total Gap	**P 521,140**	**P 559,415**	**P 900,695**	**P 1,125,041**	**(P 94)**	**P –**

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

Parent Bank

	2015 (As Restated)					
	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*	–	–	–	–	95,215	95,215
Total Resources	783,958	109,882	384,666	242,122	417,950	1,938,578
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	–	–	–	–	49,371	49,371
Total Liabilities	405,212	50,291	133,264	26,479	1,124,069	1,739,315
Equity	–	–	–	–	199,263	199,263
Total Liabilities and Equity	405,212	50,291	133,264	26,479	1,323,332	1,938,578
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)	(75)
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.*

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 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

	2016		2015	
	VaR	Stress VaR	VaR	Stress VaR
Foreign currency risk	(P 16)	(P 252)	(P 10)	(P 165)
Interest rate risk – Peso	(104)	(1,104)	(86)	(733)
Interest rate risk – USD	(23)	(339)	(9)	(182)
	(P 143)	(P 1,695)	(P 105)	(P 1,080)

Parent Bank

	2016		2015	
	VaR	Stress VaR	VaR	Stress VaR
Foreign currency risk	(P 15)	(P 248)	(P 10)	(P 162)
Interest rate risk – Peso	(51)	(345)	(66)	(587)
Interest rate risk – USD	(17)	(203)	(8)	(170)
	(P 83)	(P 796)	(P 84)	(P 919)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2016 and 2015 is shown below and in the succeeding page.

BDO Unibank Group

	2016			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 4,675)	P 4,675	(P 2,337)	P 2,337
As a percentage of the BDO Unibank Group's net interest income for 2016	(7.1%)	7.1%	(3.5%)	3.5%
Earnings-at-risk	P 11,180			

	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			

Parent Bank

	2016			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 4,796)**	**P 4,796**	**(P 2,398)**	**P 2,398**
As a percentage of the Parent Bank's net interest income for 2016	**(7.8%)**	**7.8%**	**(3.9%)**	**3.9%**
Earnings-at-risk	**P 11,776**			

	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			

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 securities, 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 2.88% in 2016 and 2015 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)	
	2016	2015	**2016**	2015
HFT securities and Financial assets at FVTPL	**P 75**	P 8	**P –**	P –
AFS financial assets	**–**	–	**414**	211
	P 75	P 8	**P 414**	P 211

Parent Bank

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2016	2015	**2016**	2015
AFS financial assets	**P –**	P –	**P 93**	P 145

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.

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 regular basis and subject to an annual or more frequent review. Approval for these limits are secured from the Credit Committee.

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 BDO Unibank Group.

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, cash flow 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, 2016 and 2015 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2016		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	**P 1,573,924**	**P 41,794**	**P 252,198**
Individually Impaired			
Unclassified	P 2,713	P –	P –
Grade B: Watchlisted	345	–	–
Grade C: LEM	5,590	–	–
Grade D: Substandard	5,255	–	–
Grade E: Doubtful	3,548	–	1,121
Grade F: Loss	4,917	–	264
Gross amount	22,368	–	1,385
Allowance for impairment	(7,813)	–	(1,385)
Carrying amount	14,555	–	–
Collectively Impaired			
Unclassified	1,436	–	–
Grade C: LEM	3,031	–	–
Grade D: Substandard	6,137	–	–
Grade E: Doubtful	2,128	–	–
Grade F: Loss	5,195	–	–
Gross amount	17,927	–	–
Allowance for impairment	(6,920)	–	–
Carrying amount	11,007	–	–
Past Due But Not Impaired			
Unclassified	999	–	–
Neither Past Due Nor Impaired			
Unclassified	1,547,363	41,794	252,198
Total Carrying Amount	**P 1,573,924**	**P 41,794**	**P 252,198**

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

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.*

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	
	2016	2015
Up to 30 days	**P 453**	P 1,015
31 to 60 days	**169**	516
61 to 90 days	**32**	31
91 to 180 days	**76**	73
More than 180 days	**269**	–
	P 999	P 1,635

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

	Loans and Other Receivables	
	2016	2015
Up to 30 days	**P 1,517,841**	P 1,330,278
31 to 60 days	**2,519**	3,561
61 to 90 days	**27,003**	18,194
	P 1,547,363	P 1,352,033

Parent Bank

	2016		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities***
Carrying Amount	**P 1,511,981**	**P 33,463**	**P 203,808**
Individually Impaired			
Grade C: LEM	P 5,096	P –	P –
Grade D: Substandard	4,910	–	–
Grade E: Doubtful	3,250	–	1,121
Grade F: Loss	3,899	–	264
Gross amount	17,155	–	1,385
Allowance for impairment	(6,523)	–	(1,385)
Carrying amount	10,632	–	–
Collectively Impaired			
Grade C: LEM	3,031	–	–
Grade D: Substandard	6,137	–	–
Grade E: Doubtful	2,128	–	–
Grade F: Loss	5,195	–	–
Gross amount	16,491	–	–
Allowance for impairment	(6,437)	–	
Carrying amount	10,054	–	–
Past Due But Not Impaired			
Unclassified	565	–	–
Neither Past Due Nor Impaired			
Unclassified	1,490,730	33,463	203,808
Total Carrying Amount	**P 1,511,981**	**P 33,463**	**P 203,808**

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

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			
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.*

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	
	2016	2015
Up to 30 days	**P 266**	P 1,010
31 to 60 days	**156**	515
61 to 90 days	**26**	19
91 to 180 days	**53**	2
More than 180 days	**64**	–
	P 565	P 1,546

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

	Loans and Other Receivables	
	2016	2015
Up to 30 days	**P 1,488,557**	P 1,291,980
31 to 60 days	**2,132**	2,951
61 to 90 days	**41**	190
	P 1,490,730	P 1,295,121

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P48,108 and P221,579, respectively, for 2016 and P41,888 and P132,385, respectively, for 2015 in BDO Unibank Group's financial statements and P48,092 and P221,399, respectively, for 2016 and P41,876 and P132,192, respectively, for 2015 in the Parent Bank's financial statements (see Note 33.3).

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	
	2016	2015	2016	2015
Individually impaired				
Property	P 12,536	P 9,708	P 7,380	P 8,852
Equity security	–	2,571	–	2,571
Hold-out deposits	1	29	1	29
Debt security	1	1	1	1
Others	1,671	1,289	1,671	1,289
	14,209	13,598	9,053	12,742
Collectively impaired				
Property	11,027	7,146	11,027	7,146
Equity	2	–	2	–
Hold-out deposits	194	–	194	–
Others	6,041	6,417	6,041	6,417
	17,264	13,563	17,264	13,563
Past due but not impaired				
Property	2,046	1,692	2,038	1,674
Hold-out deposits	2	13	2	13
Others	643	1,491	643	1,491
	2,691	3,196	2,683	3,178
Neither past due nor impaired				
Property	531,536	457,885	476,470	412,119
Equity security	150,469	127,999	149,238	127,036
Hold-out deposits	122,117	78,696	122,009	78,696
Debt security	3,723	1,762	3,296	1,466
Others	343,960	334,996	343,459	334,655
	1,151,805	1,001,338	1,094,472	953,972
	P 1,185,969	P 1,031,695	P 1,123,472	P 983,455

As of December 31, 2016 and 2015, 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

	2016			2015		
	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 418,345	P 150,735	P 175,522	P 412,108	P 169,064	P 132,092
Wholesale and retail trade	–	206,205	581	–	186,344	553
Real estate activities	–	205,376	16,236	–	184,770	19,874
Manufacturing	–	191,720	9,458	–	149,197	20,197
Electricity, gas, steam and air-conditioning supply	–	137,381	–	–	126,441	–
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	–	127,236	–	–	112,751	–
Transportation and storage	–	99,871	1,842	–	55,067	1,991
Arts, entertainment and recreation	–	54,401	–	–	18,308	–
Accommodation and food service activities	–	43,837	–	–	38,478	–
Construction	–	29,856	–	–	25,942	–
Information and communication	–	27,334	–	–	22,930	–
Human health and social work activities	–	16,282	–	–	11,497	–
Agriculture, forestry and fishing	–	14,054	–	–	14,702	–
Water supply, sewerage waste management and remediation activities	–	12,278	–	–	13,450	–
Professional, scientific and technical services	–	11,042	–	–	17,409	–
Education	–	10,840	–	–	9,773	–
Mining and quarrying	–	9,632	–	–	11,149	–
Administrative and support services	–	8,662	–	–	6,794	–
Public administrative and defense; compulsory social security	–	535	–	–	257	–
Activities of extraterritorial and organizations and bodies	–	66	–	–	28	–
Other service activities	–	124,661	49,944	–	105,001	44,158
	P 418,345	P 1,482,004	P 253,583	P 412,108	P 1,279,352	P 218,865
Concentration by location:						
Philippines	P 380,473	P 1,384,532	P 204,611	P 388,137	P 1,200,852	P 180,232
Others	37,872	97,472	48,972	23,971	78,500	38,633
	P 418,345	P 1,482,004	P 253,583	P 412,108	P 1,279,352	P 218,865

** Cash and cash equivalents include SPURRA and FCNC.*
*** Receivables from customers are reported net of unearned interests or discounts.*

Parent Bank

	2016			2015		
	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 388,789	P 147,427	P 132,385	P 385,226	P 166,885	P 111,475
Wholesale and retail traded	–	201,026	528	–	180,861	503
Real estate activities	–	198,216	14,358	–	178,859	18,285
Manufacturing	–	186,870	6,825	–	145,096	17,880
Electricity, gas, steam and air-conditioning supply	–	136,018	–	–	125,008	–
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	–	122,716	–	–	110,557	–
Transportation and storage	–	93,783	1,723	–	51,290	1,876
Arts, entertainment and recreation	–	51,771	–	–	15,636	–
Accommodation and food service activities	–	43,570	–	–	38,375	–
Information and communication	–	26,691	–	–	22,278	–
Construction	–	25,319	–	–	21,718	–
Human health and social work activities	–	15,506	–	–	10,651	–
Water supply, sewerage waste management and remediation activities	–	11,683	–	–	12,876	–
Agriculture, forestry and fishing	–	11,434	–	–	11,318	–
Professional, scientific and technical services	–	10,850	–	–	17,191	–
Mining and quarrying	–	8,573	–	–	9,438	–
Administrative and support services	–	7,578	–	–	6,028	–
Education	–	3,259	–	–	2,376	–
Public administrative and defense; compulsory social security	–	431	–	–	116	–
Activities of extraterritorial and organizations bodies	–	66	–	–	28	–
Other service activities	–	123,662	49,374	–	104,241	43,311
	P 388,789	P 1,426,449	P 205,193	P 385,226	P 1,230,826	P 193,330
Concentration by location:						
Philippines	P 355,870	P 1,332,300	P 160,169	P 364,859	P 1,150,764	P 157,355
Others	32,919	94,149	45,024	20,367	80,062	35,975
	P 388,789	P 1,426,449	P 205,193	P 385,226	P 1,230,826	P 193,330

** 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 Solution (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 five 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;

(e) ***Insurance*** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,

(f) ***Others*** – includes asset management, 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.

In the 2015 and 2014 segment reporting, the assets, liabilities, income and expenses of insurance brokerage entities are transferred to the insurance segment from others to conform to the 2016 grouping and classification.

Segment information (by service lines) as of and for the years ended December 31, 2016, 2015 and 2014 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2016								
Statement of Income								
Total interest income								
External	P 78,062	P 88	P 1,434	P 1,751	P 691	P 11	P –	P 82,037
Intersegment	127	3	–	1	8	1	(140)	–
	78,189	91	1,434	1,752	699	12	(140)	82,037
Total interest expense								
External	15,278	1	436	627	71	–	–	16,413
Intersegment	14	51	–	38	–	38	(141)	–
	15,292	52	436	665	71	38	(141)	16,413
Net interest income	62,897	39	998	1,087	628	(26)	1	65,624
Other operating income								
Investment banking fees	–	1,215	–	–	–	–	–	1,215
Others	28,502	297	1,181	1,100	10,145	585	(1,405)	40,405
	28,502	1,512	1,181	1,100	10,145	585	(1,405)	41,620
Other operating expenses								
Depreciation and amortization	3,880	56	24	738	65	19	–	4,782
Impairment losses	3,367	158	–	50	240	–	–	3,815
Others	54,409	817	1,254	647	8,420	287	(477)	65,357
	61,656	1,031	1,278	1,435	8,725	306	(477)	73,954
Profit before pre-acquisition	29,743	520	901	752	2,048	253	(927)	33,290
Pre-acquisition income	–	–	–	–	–	–	(391)	(391)
Profit before tax	29,743	520	901	752	2,048	253	(1,318)	32,899
Tax expense	5,759	201	219	181	429	8	–	6,797
Net profit	**P 23,984**	**P 319**	**P 682**	**P 571**	**P 1,619**	**P 245**	**(P 1,318)**	**P 26,102**
Statement of Financial Position								
Total resources								
Segment assets	P 2,204,555	P 5,794	P 62,258	P 38,802	P 30,047	P 5,306	(P 36,508)	P 2,310,254
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets (liability) – net	6,455	(184)	37	41	11	(26)	–	6,334
	P 2,216,222	**P 5,745**	**P 62,321**	**P 38,886**	**P 30,104**	**P 5,281**	**(P 33,601)**	**P 2,324,958**
Total liabilities	**P 1,997,541**	**P 2,378**	**P 57,064**	**P 33,536**	**P 24,730**	**P 1,968**	**(P 9,794)**	**P 2,107,423**
Other segment information								
Capital expenditures	**P 5,808**	**P 22**	**P 24**	**P 941**	**P 95**	**P 264**	**P –**	**P 7,154**
Investment in associates under equity method	**P 4,169**	**P –**	**P –**	**P 280**	**P –**	**P –**	**P –**	**P 4,449**
Share in the profit of associates	**P 501**	**P –**	**P –**	**(P 20)**	**P –**	**P –**	**P –**	**P 481**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	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 –	P 59	P –	P 72,127
Intersegment	207	2	–	1	8	1	(219)	–
	69,411	85	1,215	1,567	8	60	(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	8	25	2	56,961
Other operating income								
Investment banking fees	–	1,110	–	–	–	–	–	1,110
Others	29,275	368	1,096	1,039	1,249	441	(2,639)	30,829
	29,275	1,478	1,096	1,039	1,249	441	(2,639)	31,939
Other operating expenses								
Depreciation and amortization	3,161	54	48	670	14	14	–	3,961
Impairment losses	2,887	2	25	83	2	1	–	3,000
Others	48,109	640	1,060	564	635	316	(141)	51,183
	54,157	696	1,133	1,317	651	331	(141)	58,144
Profit before tax	30,102	796	889	724	606	135	(2,496)	30,756
Tax expense	4,875	234	221	167	179	25	–	5,701
Net profit	P 25,227	P 562	P 668	P 557	P 427	P 110	(P 2,496)	P 25,055
Statement of Financial Position								
Total resources								
Segment assets	P 1,953,458	P 6,851	P 51,527	P 34,510	P 957	P 6,644	(P 36,386)	P 2,017,561
Intangible assets	4,517	102	13	51	26	2	2,903	7,614
Deferred tax assets (liabilities) – net	6,271	(216)	58	(14)	10	(30)	–	6,079
	P 1,964,246	P 6,737	P 51,598	P 34,547	P 993	P 6,616	(P 33,483)	P 2,031,254
Total liabilities	P 1,761,203	P 5,082	P 46,024	P 29,331	P 777	P 1,641	(P 12,417)	P 1,831,641
Other segment information								
Capital expenditures	P 8,919	P 20	P 17	P 1,150	P 4	P 141	P –	P 10,251
Investment in associates under equity method	P 5,656	P 85	P –	P –	P –	P –	P –	P 5,741
Share in the profit of associates	P 817	P 20	P –	P –	P –	P –	P –	P 837

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	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 –	P 94	P –	P 63,583
Intersegment	198	4	4	–	7	1	(214)	–
	60,871	77	1,302	1,445	7	95	(214)	63,583
Total interest expense								
External	11,715	3	242	366	–	32	–	12,358
Intersegment	12	73	–	93	–	34	(212)	–
	11,727	76	242	459	–	66	(212)	12,358
Net interest income	49,144	1	1,060	986	7	29	(2)	51,225
Other operating income								
Investment banking fees	–	1,144	–	–	–	–	–	1,144
Others	27,032	269	627	827	1,022	416	(1,850)	28,343
	27,032	1,413	627	827	1,022	416	(1,850)	29,487
Other operating expenses								
Depreciation and amortization	2,640	48	46	498	11	19	–	3,262
Impairment losses	5,014	(1)	1	100	–	–	–	5,114
Others	42,197	689	1,031	507	571	408	(135)	45,268
	49,851	736	1,078	1,105	582	427	(135)	53,644
Profit before tax	26,325	678	609	708	447	18	(1,717)	27,068
Tax expense	3,522	198	168	206	133	13	–	4,240
Net profit	P 22,803	P 480	P 441	P 502	P 314	P 5	(P 1,717)	P 22,828
Statement of Financial Position								
Total resources								
Segment assets	P 1,793,126	P 13,949	P 38,779	P 29,220	P 1,101	P 6,436	(P 29,435)	P 1,853,176
Intangible assets	4,247	102	18	60	12	1	–	4,440
Deferred tax assets (liabilities) – net	6,213	(193)	73	(41)	11	(30)	–	6,033
	P 1,803,586	P 13,858	P 38,870	P 29,239	P 1,124	P 6,407	(P 29,435)	P 1,863,649
Total liabilities	P 1,624,546	P 10,694	P 33,024	P 24,255	P 751	P 1,492	(P 10,782)	P 1,683,980
Other segment information								
Capital expenditures	P 7,255	P 16	P 41	P 1,183	P –	P 23	P –	P 8,518
Investment in associates under equity method	P 5,840	P 51	P –	P –	P –	P –	P –	P 5,891
Share in the profit of associates	P 637	P 15	P –	P –	P –	P –	P –	P 652

Currently, BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong, a real estate and holding Company in Europe and various remittance subsidiaries operating in Asia, Europe, Canada and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.1%, 1.1% and 1.3% of BDO Unibank Group's total revenues in 2016, 2015 and 2014, respectively, and 1.2% of BDO Unibank Group's total resources both as of December 31, 2016 and 2015, respectively (see Note 1.1).

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

	2016			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 40,909	P –	P 40,909	P 40,909
Due from BSP	318,002	–	318,002	318,008
Due from other banks	41,794	–	41,794	41,794
Loans and other receivables	1,573,924	–	1,573,924	1,582,378
Other resources	5,932	–	5,932	6,332
Financial assets at FVTPL	–	14,024	14,024	14,024
AFS securities*	–	107,889	107,889	107,889
HTM investments	146,886	–	146,886	146,853
	P 2,127,447	P 121,913	P 2,249,360	P 2,258,187
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,905,204	P –	P 1,905,204	P 1,908,327
Bills payable	100,556	–	100,556	100,296
Subordinated notes payable	10,030	–	10,030	10,088
Insurance contract liabilities	20,548	–	20,548	20,548
Other liabilities	60,387	–	60,387	60,387
At fair value –				
Other liabilities	–	5,475	5,475	5,475
	P 2,096,725	P 5,475	P 2,102,200	P 2,105,121

	2015			
	Classes			
BDO Unibank Group	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

Parent Bank

	2016			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 39,813	P –	P 39,813	P 39,813
Due from BSP	304,285	–	304,285	304,291
Due from other banks	33,463	–	33,463	33,463
Loans and other receivables	1,511,981	–	1,511,981	1,525,420
Other resources	3,740	–	3,740	4,140
Financial assets at FVTPL	–	4,298	4,298	4,298
AFS securities*	–	62,446	62,446	62,446
HTM investments	140,951	–	140,951	140,990
	P 2,034,233	P 66,744	P 2,100,977	P 2,114,861
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,833,013	P –	P 1,833,013	P 1,832,464
Bills payable	75,800	–	75,800	75,556
Subordinated notes payable	10,030	–	10,030	10,088
Other liabilities	49,298	–	49,298	49,298
At fair value –				
Other liabilities	–	1,818	1,818	1,818
	P 1,968,141	P 1,818	P 1,969,959	P 1,969,224

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

** Unquoted AFS securities (amounting to P243 and P249 for BDO Unibank Group in 2016 and 2015, respectively, and P191 and P193 for the Parent Bank in 2016 and 2015, 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, *Fair Value Measurement,* the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or 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, 2016 and 2015 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 P243 and P249 in 2016 and 2015, respectively, in BDO Unibank Group financial statements and P191 and P193 in 2016 and 2015, respectively, in the Parent Bank's 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, 2016					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P –	P 6,845	P –	P 6,845
Government bonds		3,001	–	–	3,001
Other debt securities		1,841	–	–	1,841
Equity securities – quoted		2,337	–	–	2,337
		7,179	6,845	–	14,024
AFS securities – net:	9.2				
Government debt securities		49,457	–	–	49,457
Other debt securities		44,169	–	–	44,169
Equity securities – quoted		14,124	139	–	14,263
		107,750	139	–	107,889
		P114,929	P 6,984	P –	P121,913
Liabilities –					
Derivatives with negative fair values	19	P 65	P 5,410	P –	P 5,475

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	19	P 36	P 4,131	P –	P 4,167

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2016					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P –**	**P 2,260**	**P –**	**P 2,260**
Government bonds		**2,031**	**–**	**–**	**2,031**
Other debt securities		**7**	**–**	**–**	**7**
		2,038	**2,260**	**–**	**4,298**
AFS securities – net:	9.2				
Government debt securities		**26,395**	**–**	**–**	**26,395**
Other debt securities		**32,165**	**–**	**–**	**32,165**
Equity securities – quoted		**3,747**	**139**	**–**	**3,886**
		62,307	**139**	**–**	**62,446**
		P 64,345	**P 2,399**	**P –**	**P 66,744**
Liabilities:					
Derivatives with negative fair values	19	**P 65**	**P 1,753**	**P –**	**P 1,818**

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	19	P 36	P 1,157	P –	P 1,193

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

Discussed below and in the succeeding page 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, 2016 and 2015, 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 in the succeeding page 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, 2016				
Resources:				
Cash and other cash items	**P 40,909**	**P –**	**P –**	**P 40,909**
Due from BSP	**318,008**	**–**	**–**	**318,008**
Due from other banks	**41,794**	**–**	**–**	**41,794**
Loans and other receivable	**–**	**–**	**1,582,378**	**1,582,378**
HTM investments	**146,853**	**–**	**–**	**146,853**
Other resources	**5,563**	**–**	**769**	**6,332**
	P 553,127	**P –**	**P 1,583,147**	**P 2,136,274**
Liabilities:				
Deposit liabilities	**P 1,800,148**	**P 108,179**	**P –**	**P 1,908,327**
Bills payable	**29,460**	**70,836**	**–**	**100,296**
Insurance contract liabilities	**–**	**–**	**20,548**	**20,548**
Subordinated notes payable	**–**	**10,088**	**–**	**10,088**
Other liabilities	**–**	**–**	**60,387**	**60,387**
	P 1,829,608	**P 189,103**	**P 80,935**	**P 2,099,646**
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

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Resources:				
Cash and other cash items	**P 39,813**	**P –**	**P –**	**P 39,813**
Due from BSP	**304,291**	**–**	**–**	**304,291**
Due from other banks	**33,463**	**–**	**–**	**33,463**
HTM investments	**140,990**	**–**	**–**	**140,990**
Loans and other receivables	**–**	**–**	**1,525,420**	**1,525,420**
Other resources	**3,468**	**–**	**672**	**4,140**
	P 522,025	**P –**	**P 1,526,092**	**P 2,048,117**
Liabilities:				
Deposit liabilities	**P 1,729,673**	**P 102,791**	**P –**	**P 1,832,464**
Bills payable	**29,460**	**46,096**	**–**	**75,556**
Subordinated notes payable	**–**	**10,088**	**–**	**10,088**
Other liabilities	**–**	**–**	**49,298**	**49,298**
	P 1,759,133	**P 158,975**	**P 49,298**	**P 1,967,406**
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

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 and HTM Investments

The fair value of AFS securities and HTM investments are determined by direct reference to published price quoted in an active market for traded debt and equity 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, 2016 and 2015 are shown below and in the succeeding page.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Investment properties				
Land	**P –**	**P –**	**P 15,184**	**P 15,184**
Building and improvements	**–**	**–**	**11,095**	**11,095**
Non-current assets held for sale	**–**	**–**	**661**	**661**
	P –	**P –**	**P 26,940**	**P 26,940**
December 31, 2015				
Investment properties				
Land	P –	P –	P 14,398	P 14,398
Building and improvements	–	–	10,075	10,075
Non-current assets held for sale	–	–	521	521
	P –	P –	P 24,994	P 24,994

Parent Bank

	Level 1		Level 2		Level 3		Total
December 31, 2016							
Investment properties							
Land	**P**	**–**	**P**	**–**	**P**	**13,845**	**P 13,845**
Building and improvements		**–**		**–**		**8,900**	**8,900**
Non-current assets held for sale		**–**		**–**		**660**	**660**
	P	**–**	**P**	**–**	**P**	**23,405**	**P 23,405**
December 31, 2015							
Investment properties							
Land	P	–	P	–	P	13,041	P 13,041
Building and improvements		–		–		8,201	8,201
Non-current assets held for sale		–		–		517	517
	P	–	P	–	P	21,759	P 21,759

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2016 and 2015 (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 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 and assets held for sale 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 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.

(c) Fair Value Measurement for Assets held for sale

The fair value of assets held for sale are determined based on the recent experience in the valuation of similar properties. The fair value, determined under Level 3 measurement, was derived using the market data approach that reflects that recent transaction prices for similar properties, adjusted for differences in property age and condition.

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 2016 and 2015.

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, 2016 and 2015 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

	Financial assets	Financial liabilities available for set-off	Collateral received	Net amount
December 31, 2016				
AFS securities	P 1,970	P 309	P –	P 1,661
HTM securities	780	602	–	178
Financial assets at FVTPL:				
Currency swaps	2,846	710	–	2,136
Interest rate swaps	57	57	–	–
Loans and receivables –				
Receivables from customers	44,494	889	42,647	958
Other resources –				
Margin deposits	2,087	2,087	–	–
	P 52,234	P 4,654	P 42,647	P 4,933

	Financial assets	Financial liabilities available for set-off	Collateral received	Net amount
December 31, 2015				
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
Other resources –				
Margin deposits	1,771	1,771	–	–
	P 44,880	P 4,225	P 33,806	P 6,849

Parent Bank

		Financial assets		Financial liabilities available for set-off		Collateral received		Net amount
December 31, 2016								
HTM securities	P	780	P	602	P	–	P	178
Financial assets at FVTPL:								
Currency swaps		11		11		–		–
Interest rate swaps		30		30		–		–
Loans and receivables –								
Receivables from customers		42,243		–		42,243		–
	P	43,064	P	643	P	42,243	P	178

		Financial assets		Financial liabilities available for set-off		Collateral received		Net amount
December 31, 2015								
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		–
	P	36,613	P	621	P	33,664	P	2,328

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:

BDO Unibank Group

	Financial liabilities	Financial assets available for set-off	Collateral given	Net amount
December 31, 2016				
Deposit liabilities	**P 99,443**	**P 42,647**	**P –**	**P 56,796**
Bills payable	**1,800**	**–**	**1,800**	**–**
Derivatives with negative fair values:				
Currency forwards	**2,087**	**–**	**2,087**	**–**
Currency swaps	**710**	**710**	**–**	**–**
Interest rate swaps	**71**	**57**	**–**	**14**
Total	**P 104,111**	**P 43,414**	**P 3,887**	**P 56,810**

	Financial liabilities	Financial assets available for set-off	Collateral given	Net amount
December 31, 2015				
Deposit liabilities	P 47,269	P 33,806	P –	P 13,463
Bills payable	1,682	–	1,682	–
Derivatives with negative fair values:				
Currency forwards	1,771	–	1,771	–
Currency swaps	717	717	–	–
Interest rate swaps	72	55	–	17
Total	P 51,511	P 34,578	P 3,453	P 13,480

Parent Bank

	Financial liabilities	Financial assets available for set-off	Collateral given	Net amount
December 31, 2016				
Deposit liabilities	**P 99,111**	**P 42,243**	**P –**	**P 56,868**
Bills payable	**602**	**–**	**602**	**–**
Derivatives with negative fair values:				
Currency swaps	**19**	**11**	**–**	**8**
Interest rate swaps	**37**	**30**	**–**	**7**
Total	**P 99,769**	**P 42,284**	**P 602**	**P 56,883**

	Financial liabilities	Financial assets available for set-off	Collateral given	Net amount
December 31, 2015				
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

For the financial assets and financial 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 financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Cash and other cash items	**P 40,909**	P 42,729	**P 39,813**	P 41,767
Due from BSP:				
Mandatory reserves	**292,720**	259,028	**284,685**	251,933
Other than mandatory reserves	**25,282**	12,780	**19,600**	8,908
	318,002	271,808	**304,285**	260,841
	P 358,911	P 314,537	**P 344,098**	P 302,608

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% both in 2016 and 2015, and range from 2.0% to 2.5% in 2014. Total interest income earned amounted to P564, P738 and P2,026 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P474, P592 and P1,787 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 21).

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	
	2016	2015	**2016**	2015
Foreign banks	**P 37,357**	P 23,789	**P 32,881**	P 20,338
Local banks	**4,437**	1,048	**582**	606
	P 41,794	P 24,837	**P 33,463**	P 20,944

The breakdown of this account as to currency follows:

	BDO Unibank Group				Parent Bank			
	2016		2015		**2016**		2015	
U.S. dollars	**P**	**28,587**	P	17,492	**P**	**24,873**	P	14,871
Other foreign currencies		**9,773**		6,961		**8,551**		6,004
Philippine pesos		**3,434**		384		**39**		69
	P	**41,794**	P	24,837	**P**	**33,463**	P	20,944

Annual interest rates on these deposits range from 0.01% to 2.38% in 2016, 0.01% to 1.50% in 2015 and 0.01% to 3.30% in 2014 in BDO Unibank Group's financial statements and 0.01% to 1.05% in 2016, 0.01% to 0.80% in 2015 and 0.01% to 0.70% in 2014 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 P132, P57 and P39 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P91, P43 and P35 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 21).

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			
	2016		2015		**2016**		2015	
Financial assets at FVTPL	**P**	**14,024**	P	13,567	**P**	**4,298**	P	5,416
AFS securities – net		**108,132**		212,192		**62,637**		191,084
HTM investments		**146,886**		–		**140,951**		–
	P	**269,042**	P	225,759	**P**	**207,886**	P	196,500

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Derivative financial assets	**P 6,845**	P 5,461	**P 2,260**	P 1,687
Government bonds	**3,001**	4,855	**2,031**	3,679
Other debt securities	**1,841**	3,054	**7**	50
	11,687	13,370	**4,298**	5,416
Equity securities – quoted	**2,337**	197	**–**	–
	P 14,024	P 13,567	**P 4,298**	P 5,416

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 P96, P121 and P37 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and (P45), P167 and P65 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements. These are included as part of Trading gains under Other Operating Income account in the statements of income (see Note 23).

Foreign currency-denominated securities amounted to P4,091 and P3,513 as of December 31, 2016 and 2015, respectively, in BDO Unibank Group's financial statements and P2,917 and P2,237 as of December 31, 2016 and 2015, 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

	2016			2015		
		Fair Values			Fair Values	
	Notional Amount	Assets	Liabilities	Notional Amount	Assets	Liabilities
Currency forwards/futures	P 111,834	P 853	P 799	P 141,033	P 705	P 310
Cross currency swaps	57,612	5,806	4,533	60,060	4,678	3,689
Interest rate swaps	39,399	186	105	33,594	78	132
Republic of the Philippines (ROP) warrants	15,021	–	38	15,021	–	36
Others	192	–	–	200	–	–
	P 224,058	P 6,845	P 5,475	P 249,908	P 5,461	P 4,167

Parent Bank

	2016			2015		
		Fair Values			Fair Values	
	Notional Amount	Assets	Liabilities	Notional Amount	Assets	Liabilities
Currency forwards/futures	P 104,920	P 843	P 715	P 136,280	P 683	P 303
Interest rate swaps	19,581	76	43	19,142	73	83
Cross currency swaps	17,993	1,341	1,022	18,641	931	771
ROP warrants	15,021	–	38	15,021	–	36
	P 157,515	P 2,260	P 1,818	P 189,084	P 1,687	P 1,193

9.2 AFS Securities

AFS securities consist of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2016**	2015	**2016**	2015
Government debt securities		**P 49,478**	P 137,181	**P 26,416**	P 127,344
Other debt securities:					
Quoted		**45,289**	68,071	**33,285**	60,327
Not quoted		**243**	243	**243**	243
Equity securities:					
Quoted		**16,711**	9,894	**5,918**	6,395
Not quoted		**729**	739	**563**	567
		112,450	216,128	**66,425**	194,876
Allowance for impairment	14	**(4,318)**	(3,936)	**(3,788)**	(3,792)
		P 108,132	P 212,192	**P 62,637**	P 191,084

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Foreign currencies	**P 70,746**	P 151,029	**P 53,862**	P 144,109
Philippine peso	**37,386**	61,163	**8,775**	46,975
	P 108,132	P 212,192	**P 62,637**	P 191,084

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 2.0% to 12.1% in 2016 and 0.0% to 11.6% both in 2015 and 2014 for BDO Unibank Group's financial statements while 2.0% to 10.6% in 2016, 1.6% to 11.6% in 2015 and 0.0% to 11.6% in 2014 in the Parent Bank's financial statements.

As of December 31, 2016 and 2015, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,107 and P1,048, respectively, in the Parent Bank's financial statements. These investments are fully provided with allowance for impairment as of December 31, 2016 and 2015.

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 less impairment, if any.

The reconciliation of the carrying amounts of AFS securities are as follows:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 212,192**	P 212,742	**P 191,084**	P 190,136
Reclassification from AFS securities to HTM investments (see Note 9.4)	**(107,362)**	–	**(103,014)**	–
Additions	**77,520**	453,010	**40,953**	437,205
Disposals	**(99,975)**	(459,817)	**(70,543)**	(440,956)
Addition due to acquisition of new subsidiaries	**23,443**	2,064	**–**	–
Foreign currency revaluation	**3,639**	8,411	**3,255**	8,074
Unrealized fair value gains (losses)	**(943)**	(2,457)	**899**	(1,498)
Impairment loss – net	**(382)**	(1,761)	**3**	(1,877)
Balance at end of year	**P 108,132**	P 212,192	**P 62,637**	P 191,084

Government securities of BDO Unibank Group and the Parent Bank with an aggregate principal amount of P2,750 and P780, respectively, as of December 31, 2016 and P4,745 and P2,899, respectively as of December 31, 2015, were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 31). These government securities are part of AFS securities except that of the Parent Bank amounting to P780 which were included in the reclassification from AFS securities to HTM investments in 2016 (see Note 9.3).

In 2016, BDO Unibank Group has determined that there is an objective evidence that certain equity securities have shown significant or prolonged decline. Accordingly, BDO Unibank Group and Parent Bank recognized impairment loss amounting to P346 and nil, respectively, in 2016, and P1,841 and P1,841, respectively, in 2015. This is presented as part of Impairment Loss in the statements of income and under items that are reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 14). In 2013, 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. As of December 31, 2016 and 2015, the market value of the remaining reclassified investments amounted to P1,939 and P9,335, respectively, for both the BDO Unibank Group and Parent Bank's financial statements.

As mentioned in Note 26, certain government debt securities are deposited with the BSP.

9.3 HTM Investments

As of December 31, 2016, this account consists of:

	BDO Unibank Group	Parent Bank
Government debt securities	P 119,182	P 113,247
Other debt securities:		
Quoted	26,742	26,742
Unquoted	962	962
	P 146,886	**P 140,951**

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

	BDO Unibank Group	Parent Bank
Foreign currencies	P 103,493	P 102,895
Philippine peso	43,393	38,056
	P 146,886	**P 140,951**

The reconciliation of the carrying amounts of HTM investments are as follows:

	BDO Unibank Group	Parent Bank
Reclassification from AFS securities to HTM investments (see Note 9.4)	P 107,362	P 103,014
Additions	49,939	48,139
Maturities	(15,733)	(15,413)
Foreign currency gains — net	5,235	5,211
Addition due to acquisition of new subsidiary	83	–
	P 146,886	**P 140,951**

Annual coupon interest rates on government and other debt securities range from 1.15% to 10.63% in 2016.

9.4 Reclassification of Investment Securities

In 2016, after the end of the two-year tainting period, BDO Unibank Group and the Parent Bank reclassified AFS securities with a carrying value as of reclassification date of P107,362 and P103,014, respectively, and unrealized fair value losses of P2,181 and P2,269, respectively, to HTM investments. Of the reclassified unrealized fair value losses, a total of P275 and P292 were amortized by BDO Unibank Group and the Parent Bank in 2016 resulting in unamortized fair value losses of P1,906 and P1,977, respectively, as of December 31, 2016. As of December 31, 2016, the outstanding balance of the reclassified securities of BDO Unibank Group and the Parent Bank amounted to P96,504 and P92,234, respectively.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

		BDO Unibank Group		Parent Bank	
	Notes	**2016**	2015	**2016**	2015
Receivables from customers:					
Loans and discounts	25, 28.8	**P1,376,870**	P 1,185,249	**P1,320,102**	P 1,135,543
Customers' liabilities under letters of credit and trust receipts		**49,148**	46,861	**49,148**	46,861
Bills purchased		**10,527**	8,693	**10,527**	8,652
Credit card receivables		**46,761**	39,921	**46,761**	39,921
		1,483,306	1,280,724	**1,426,538**	1,230,977
Unearned interests or discounts		**(1,302)**	(1,372)	**(89)**	(151)
Allowance for impairment	14	**(26,161)**	(26,226)	**(24,602)**	(24,835)
		(27,463)	(27,598)	**(24,691)**	(24,986)
		1,455,842	1,253,126	**1,401,847**	1,205,991
Other receivables:					
Interbank loans receivables		**73,440**	51,979	**73,440**	51,979
Unquoted debt securities classified as loans (UDSCL)		**22,546**	982	**22,546**	982
SPURRA		**14,302**	69,490	**7,891**	58,431
Accounts receivable	25, 33.1.1	**7,681**	6,446	**6,408**	5,349
Sales contract receivables		**1,678**	2,091	**1,561**	1,938
Others		**360**	71	**–**	–
		120,007	131,059	**111,846**	118,679
Allowance for impairment	14	**(1,925)**	(1,433)	**(1,712)**	(1,359)
		118,082	129,626	**110,134**	117,320
		P1,573,924	P 1,382,752	**P1,511,981**	P 1,323,311

Non-performing loans included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2016 and 2015 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	
	2016	2015	**2016**	2015
NPL	**P 17,943**	P 14,983	**P 15,855**	P 13,696
Allowance for impairment	**(12,037)**	(11,596)	**(11,169)**	(10,974)
	P 5,906	P 3,387	**P 4,686**	P 2,722

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	
	2016	2015	**2016**	2015
Wholesale and retail trade	**P 206,205**	P 186,344	**P 201,026**	P 180,861
Real estate activities	**205,376**	184,770	**198,216**	178,859
Manufacturing	**191,720**	149,197	**186,870**	145,096
Financial and insurance activities	**150,735**	169,064	**147,427**	166,885
Electricity, gas, steam and air-conditioning supply	**137,381**	126,441	**136,018**	125,008
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**127,236**	112,751	**122,716**	110,557
Transportation and storage	**99,871**	55,067	**93,783**	51,290
Arts, entertainment and recreation	**54,401**	18,308	**51,771**	15,636
Accommodation and food service activities	**43,837**	38,478	**43,570**	38,375
Construction	**29,856**	25,942	**25,319**	21,718
Information and communication	**27,334**	22,930	**26,691**	22,278
Human health and social work activities	**16,282**	11,497	**15,506**	10,651
Agriculture, forestry and fishing	**14,054**	14,702	**11,434**	11,318
Water supply, sewerage, waste management and remediation activities	**12,278**	13,450	**11,683**	12,876
Professional, scientific and technical services	**11,042**	17,409	**10,850**	17,191
Education	**10,840**	9,773	**3,259**	2,376
Mining and quarrying	**9,632**	11,149	**8,573**	9,438
Administrative and support services	**8,662**	6,794	**7,578**	6,028
Public administrative and defense; compulsory social security	**535**	257	**431**	116
Activities of extraterritorial organizations and bodies	**66**	28	**66**	28
Other service activities	**124,661**	105,001	**123,662**	104,241
	P 1,482,004	P 1,279,352	**P 1,426,449**	P 1,230,826

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	
	2016	2015	**2016**	2015
Secured:				
Real estate mortgage	**P 196,963**	P 152,253	**P 192,537**	P 147,194
Chattel mortgage	**98,619**	78,359	**78,960**	60,498
Other securities	**116,737**	103,387	**114,631**	101,992
	412,319	333,999	**386,128**	309,684
Unsecured	**1,069,685**	945,353	**1,040,321**	921,142
	P 1,482,004	P 1,279,352	**P 1,426,449**	P 1,230,826

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	
	2016	2015	**2016**	2015
Variable interest rates	**P 1,083,616**	P 948,711	**P 1,058,182**	P 927,309
Fixed interest rates	**398,388**	330,641	**368,267**	303,517
	P 1,482,004	P 1,279,352	**P 1,426,449**	P 1,230,826

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%, 4.0% and 4.1% per month in 2016, 2015 and 2014, respectively.

BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P1,847 and nil, respectively, as of December 31, 2016 and P1,977 and P7, respectively, as of December 31, 2015 are pledged as collaterals to secure borrowings under rediscounting privileges (see Notes 16 and 33).

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 2016 and 2015 are shown below and in the succeeding page.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2016						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P48,709
Accumulated depreciation and amortization	–	(12,947)	(4,749)	(3,589)	–	(21,285)
Allowance for impairment	(137)	–	(375)	–	–	(512)
Net carrying amount	**P 5,981**	**P 8,104**	**P 10,615**	**P 1,923**	**P 289**	**P26,912**
December 31, 2015						
Cost	P 6,027	P 18,778	P 14,678	P 4,621	P 251	P44,355
Accumulated depreciation and amortization	–	(11,625)	(4,230)	(2,993)	–	(18,848)
Allowance for impairment	(137)	–	(375)	–	–	(512)
Net carrying amount	P 5,890	P 7,153	P 10,073	P 1,628	P 251	P24,995
January 1, 2015						
Cost	P 5,211	P 15,415	P 8,390	P 3,996	P 4,244	P37,256
Accumulated depreciation and amortization	–	(9,450)	(3,610)	(2,671)	–	(15,731)
Allowance for impairment	(32)	–	(400)	–	–	(432)
Net carrying amount	P 5,179	P 5,965	P 4,380	P 1,325	P 4,244	P21,093

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2016						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P40,880
Accumulated depreciation and amortization	–	(10,158)	(4,494)	(3,304)	–	(17,956)
Allowance for impairment	(123)	–	(371)	–	–	(494)
Net carrying amount	**P 5,255**	**P 5,290**	**P 9,887**	**P 1,733**	**P 265**	**P22,430**
December 31, 2015						
Cost	P 5,287	P 14,132	P 13,849	P 4,360	P 248	P37,876
Accumulated depreciation and amortization	–	(9,447)	(3,967)	(2,816)	–	(16,230)
Allowance for impairment	(123)	–	(371)	–	–	(494)
Net carrying amount	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P21,152
January 1, 2015						
Cost	P 5,211	P 12,188	P 8,332	P 3,789	P 4,244	P33,764
Accumulated depreciation and amortization	–	(8,324)	(3,563)	(2,528)	–	(14,415)
Allowance for impairment	(32)	–	(400)	–	–	(432)
Net carrying amount	P 5,179	P 3,864	P 4,369	P 1,261	P 4,244	P18,917

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

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment	P 5,890	P 7,153	P 10,073	P 1,628	P 251	P 24,995
Additions	89	3,685	960	603	200	5,537
Disposals	–	(77)	(5)	(8)	–	(90)
Reclassifications	2	(5)	159	297	(162)	291
Depreciation and amortization charges for the year	–	(2,652)	(572)	(597)	–	(3,821)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	**P 5,981**	**P 8,104**	**P 10,615**	**P 1,923**	**P 289**	**P 26,912**
Balance at January 1, 2015, net of accumulated depreciation, amortization and impairment	P 5,179	P 5,965	P 4,380	P 1,325	P 4,244	P 21,093
Additions	798	3,465	1,962	480	258	6,963
Disposals	–	(63)	(60)	(13)	–	(136)
Reclassifications	(78)	43	4,255	318	(4,251)	287
Depreciation and amortization charges for the year	–	(2,257)	(464)	(482)	–	(3,203)
Reversal of appraisal increment	(9)	–	–	–	–	(9)
Balance at December 31, 2015, net of accumulated depreciation, amortization and impairment	P 5,890	P 7,153	P 10,073	P 1,628	P 251	P 24,995

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P21,152
Additions	89	2,363	742	438	179	3,811
Disposals	–	(23)	–	(7)	–	(30)
Reclassifications	2	9	159	300	(162)	308
Depreciation and amortization charges for the year	–	(1,744)	(525)	(542)	–	(2,811)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	**P 5,255**	**P 5,290**	**P 9,887**	**P 1,733**	**P 265**	**P22,430**
Balance at January 1, 2015, net of accumulated depreciation, amortization and impairment	P 5,179	P 3,864	P 4,369	P 1,261	P 4,244	P18,917
Additions	72	2,299	1,384	426	258	4,439
Disposals	–	(10)	(60)	(13)	–	(83)
Reclassifications	(78)	47	4,258	318	(4,254)	291
Depreciation and amortization charges for the year	–	(1,515)	(440)	(448)	–	(2,403)
Reversal of appraisal increment	(9)	–	–	–	–	(9)
Balance at December 31, 2015, net of accumulated depreciation, amortization and impairment	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P21,152

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2016 and 2015, BDO Unibank Group has complied with this requirement.

In 2015, reversal of appraisal increment and impairment losses amounting to P9 was recognized by BDO Unibank Group and the Parent Bank to write-down to recoverable amount certain parcels of land (nil in 2016). The recoverable amount of land and building as of December 31, 2016 and 2015, respectively, was based on the appraised values of such asset.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2016 and 2015 are still being used in operations with acquisition costs amounting to P6,794 and P6,517, respectively, for BDO Unibank Group's financial statements and P5,967 and P5,906, respectively, for Parent Bank's financial statements.

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 P247 and P70 in 2016, P217 and P72 in 2015, P228 and P76 in 2014 and are presented as part of Income from assets sold or exchanged under Other Operating Income account in BDO Unibank Group and Parent Bank's financial statements, respectively (see Note 23). Direct expenses incurred from these properties such as taxes and licenses amounted to P55 and P2 in 2016, P2 and P2 in 2015 and P3 and P3 in 2014 in BDO Unibank Group's and Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the Unibank Group and Parent Bank's financial statements, respectively (see Note 23).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2016 and 2015 are shown below.

BDO Unibank Group

	Land	Buildings	Total
December 31, 2016			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	–	(2,893)	(2,893)
Allowance for impairment (see Note 14)	(1,962)	(107)	(2,069)
Net carrying amount	**P 7,961**	**P 7,227**	**P 15,188**
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
January 1, 2015			
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

Parent Bank

	Land		Buildings		Total	
December 31, 2016						
Cost	P	8,533	P	7,855	P	16,388
Accumulated depreciation		–	(	2,630)	(	2,630)
Allowance for impairment (see Note 14)	(	1,911)	(	63)	(	1,974)
Net carrying amount	**P**	**6,622**	**P**	**5,162**	**P**	**11,784**
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
January 1, 2015						
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

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

BDO Unibank Group

	Land	Buildings	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 7,803	P 6,830	P 14,633
Additions	484	1,133	1,617
Disposals	(557)	(222)	(779)
Reclassifications	231	(7)	224
Depreciation for the year	–	(507)	(507)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 7,961**	**P 7,227**	**P 15,188**
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

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 6,447	P 4,956	P 11,403
Additions	480	901	1,381
Disposals	(538)	(219)	(757)
Reclassifications	233	(8)	225
Depreciation for the year	–	(468)	(468)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 6,622**	**P 5,162**	**P 11,784**
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

The fair value of investment properties as of December 31, 2016 and 2015, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P26,279 and P24,473, respectively, for BDO Unibank Group's financial statements and P22,745 and P21,242, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

The recoverable amount of impaired investment properties as of December 31, 2016 and 2015 was based on value in use computed through discounted cash flows method at an effective rate of 1.26% and 1.45% in 2016 and 2015, 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, 2016 and 2015, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Investment properties	**P 8,817**	P 8,711	**P 8,550**	P 8,425
AFS securities	**813**	857	**813**	857
Non-current assets held for sale	**712**	567	**711**	558
	P 10,342	P 10,135	**P 10,074**	P 9,840

13. OTHER RESOURCES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2016**	2015	**2016**	2015 (As restated – see Note 2.1)
Deferred tax assets – net	29.1	**P 6,334**	P 6,079	**P 6,097**	P 6,068
Deferred charges		**4,842**	3,896	**4,840**	3,892
Equity investments	13.1	**4,449**	5,741	**33,444**	32,292
Goodwill	13.3, 28.1 28.7	**4,435**	4,399	**1,391**	1,391
Foreign currency notes and coins on hand		**3,338**	3,244	**3,337**	3,243
Credit card acquiring		**3,113**	4,203	**3,113**	4,203
Branch licenses	13.4, 28.8	**3,020**	3,020	**3,020**	3,020
Margin deposits		**2,223**	1,776	**131**	5
Real properties for development and sale		**1,671**	1,760	**–**	–
Computer software – net		**1,649**	1,067	**1,494**	934
Non-current assets held for sale	13.6	**712**	567	**711**	558
Retirement benefit asset	24.2	**709**	1,355	**796**	1,237
Deposits under escrow	13.2	**672**	5,226	**672**	5,226
Customer lists – net	28.9	**487**	502	**487**	502
Prepaid documentary stamps		**467**	482	**421**	454
Trademark – net	13.7, 28.2	**157**	–	**157**	–
Returned checks and other cash items		**100**	112	**100**	111
Dividend receivable		**71**	118	**–**	2,481
Interoffice float items – net		**–**	123	**–**	121
Others	13.5, 13.8	**3,304**	2,624	**2,083**	1,746
		41,753	46,294	**62,294**	67,484
Allowance for impairment	14	**(2,566)**	(2,553)	**(4,845)**	(4,824)
		P 39,187	P 43,741	**P 57,449**	P 62,660

13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015 (As restated – see Note 2.1)
Acquisition costs:					
Philippine subsidiaries					
ONB	99.76%	**P –**	P –	**P 6,696**	P 6,687
BDOSHI	100%	**–**	–	**5,684**	5,684
BDO Life**	100%	**–**	–	**3,403**	–
BDO Private	100%	**–**	–	**2,579**	2,579
BDO Leasing	87.43%	**–**	–	**1,878**	1,878
BDO Capital	99.88%	**–**	–	**1,878**	300
BDO Nomura	51%	**–**	–	**39**	39
PCI Realty Corporation	100%	**–**	–	**34**	34
BDOI	100%	**–**	–	**11**	11
PCI Insurance	100%	**–**	–	**8**	8
Equimark	60%	**–**	–	**4**	4
BDO Savings	***	**–**	–	**–**	878
BDO Elite	***	**–**	–	**–**	700
		–	–	**22,214**	18,802
Foreign subsidiaries					
BDORO	100%	**–**	–	**169**	169
BDO Remit (Japan) Ltd.	100%	**–**	–	**92**	30
Express Padala (Hongkong), Ltd.	100%	**–**	–	**28**	28
BDO Remit (USA), Inc.	100%	**–**	–	**26**	26
BDO Remit (Canada) Ltd.	100%	**–**	–	**18**	18
PCIB Europe S.p.A.	100%	**–**	–	**1**	1
Express Padala Frankfurt GmbH	100%	**–**	–	**–**	1
		–	–	**334**	273
Associates and Joint Venture					
SM Keppel Land, Inc. (SM Keppel)	50.00%	**1,658**	1,658	**1,658**	1,658
MNTC	12.40%	**1,405**	1,405	**1,405**	1,405
MMPC Auto-Financial Services Corporation (MAFSC)	34.97%	**300**	–	**–**	–
Northpine Land Incorporated	20.00%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
BDO Life**	40.00%	**–**	1,235	**–**	1,168
Others	*	**10**	10	**10**	10
		3,775	4,710	**3,475**	4,643

	% Interest Held	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015 (As restated – see Note 2.1)
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,031**	1,181	**8,574**	10,513
Equity in net profit		**481**	837	**3,516**	2,276
Equity in other comprehensive income (loss)		**1**	(356)	**(2,095)**	(414)
BDO Life step acquisition**		**(334)**	–	**–**	–
Reclassification		**–**	(501)	**–**	–
Dividends		**(505)**	(130)	**(2,574)**	(3,801)
Balance at end of year		**674**	1,031	**7,421**	8,574
Net investments in associates/subsidiaries		**4,449**	5,741	**33,444**	32,292
Allowance for impairment		**(39)**	(39)	**(2,850)**	(2,850)
		P 4,410	P 5,702	**P 30,594**	P 29,442

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

*** BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.4).*

**** BDO Savings and BDO Elite were merged with BDO Capital in 2016 (see Note 28.3).*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2016 and 2015, except for BDO Life which is at 40% in BDO Unibank Group and 38.05% in the Parent Bank in 2015 and for BDO Leasing which is at 88.54% in BDO Unibank Group and 87.43% in the Parent Bank in both years. In 2016, the Parent Bank has acquired full ownership interest in BDO Life (see Note 28.4).

The fair value of BDO Leasing amounts to P7,257 and P4,691 in 2016 and 2015, respectively, which had 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 as of December 31, 2016 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
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

** EPFG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings were completed in 2016 (see Note 2.3).*

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 applied for a banking license in the UK, but the approval is still pending as of December 31, 2016. 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. In October 2016, BDO Capital acquired additional shares in CBN Grupo which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 28.1)

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 23).

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 13.4). In 2016, BDO Savings was merged with BDO Capital together with BDO Elite with BDO capital as surviving entity (see Note 28.3).

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, to 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. In April 2016, BDO Remit (Japan) Ltd. started its operations. The Parent Bank paid P62 and P30 as capital contribution in 2016 and 2015, respectively.

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	**2016**	2015	**2016**	2015	**2016**	2015
BDO Leasing	**11.46%**	11.46%	**P 65**	P 64	**P 613**	P 598

Dividends amounting to P50 and P43 were paid to the NCI in 2016 and 2015, respectively.

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

	2016	2015
Statements of financial position:		
Total resources	**P 38,886**	P 34,547
Total liabilities	**33,537**	29,331
Equity attributable to owners of the parent	**4,736**	4,618
Non-controlling interest	**613**	598
Statements of comprehensive income:		
Total interest income	**1,751**	1,567
Total other operating income	**1,100**	1,039
Profit attributable to owners of the parent	**505**	493
Profit attributable to NCI	**65**	64
Profit	**570**	557
Total comprehensive income attributable to owners of the parent	**501**	539
Total comprehensive income attributable to NCI	**65**	70
Total comprehensive income	**P 566**	P 609
Statements of cash flows:		
Net cash used in operating activities	**(P 2,065)**	(P 1,847)
Net cash used in investing activities	**(838)**	(2,059)
Net cash from financing activities	**2,941**	3,824
Net cash inflow (outflow)	**P 38**	(P 82)

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2016, 2015 and 2014:

		MNTC		BDO Life		SM Keppel		Others		Total
December 31, 2016 (Unaudited)										
Assets	P	**35,279**	P	**–**	P	**5,295**	P	**2,968**	P	**43,542**
Liabilities		**25,670**		**–**		**3,000**		**1,152**		**29,822**
Equity		**9,609**		**–**		**2,295**		**1,816**		**13,720**
Revenues		**10,772**		**–**		**175**		**957**		**11,904**
Net profit		**4,085**		**–**		**21**		**95**		**4,201**
December 31, 2015 (Audited)										
Assets	P	30,885	P	22,971	P	2,673	P	2,334	P	58,863
Liabilities		22,751		19,006		398		575		42,730
Equity		8,134		3,965		2,275		1,759		16,133
Revenues		8,690		7,230		177		695		16,792
Net profit		2,993		1,102		22		109		4,226
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

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the Parent Bank 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 the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. Deposits under escrow earned a return on investment of 3.3% and 1.4% in 2016 and 2015, respectively. In 2016 and 2015, BDO Unibank Group and Parent Bank recognized income amounting to P95 and P1,269, respectively, which is presented as part of Miscellaneous under Other Operating Income account in the statements of income (see Note 23). As of December 31, 2016 and 2015, BDO Unibank Group and Parent Bank provided an allowance for impairment both amounting to P400.

13.3 Goodwill

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 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., Rural Bank of San Enrique, Inc., CBN Grupo International Holdings B.V., BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, respectively (see Note 28).

The Parent Bank recognized impairment loss of P4, P4 and P62 in 2016, 2015 and 2014, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). 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 BDO Unibank Group's financial statements, except those related to the Parent Bank.

13.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. [TRB] and BDO Savings in addition to the current branches of the acquired banks (see Notes 13.1 and 28.8). There is no impairment loss recognized on the branch licenses at the BDO Unibank Group's financial statements since the impairment will be upon the expiry on 2017 of the term given by the BSP to the Parent Bank in establishing certain number of branches.

13.5 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.

In 2015, the Parent Bank wrote-off receivable from SPVs amounting to P2,815 since the management has evaluated that those receivables are no longer recoverable (see Note 14).

13.6 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. No impairment loss was recognized in 2014 to 2016 in both BDO Unibank Group and Parent Bank's financial statements.

13.7 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio amounted to P8. This is recorded under Miscellaneous expenses under Other Operating Expenses account in the 2016 statement of income (see Note 23).

13.8 Others

Amortization expense on computer software licenses amounted to P444, P285 and P206 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P380, P249 and P196 in 2016, 2015 and 2014, 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 23).

Depreciation expense on certain assets amounting to P10, P43 and P7 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P9, P43 and P6 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 23).

In 2016 and 2015, the Parent Bank recognized impairment loss amounting to P15 and P26, respectively, to write-down the value of customer list to its recoverable amount (see Note 14). 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 28.9).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015
Balance at beginning of year:					
AFS securities	9.2	P 3,936	P 2,175	P 3,792	P 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
		36,965	39,123	37,515	40,799
Impairment losses – net		3,749	2,974	2,988	2,683
Business combination		189	752	–	–
Adjustments		(142)	(592)	5	(965)
Write-offs		(3,330)	(5,456)	(3,328)	(5,188)
Reversals		(117)	(25)	–	–
Foreign currency revaluation		237	189	235	186
		P 37,551	P 36,965	P 37,415	P 37,515
Balance at end of year:					
AFS securities	9.2	P 4,318	P 3,936	P 3,788	P 3,792
Loans and other receivables	10	28,086	27,659	26,314	26,194
Bank premises	11	512	512	494	494
Investment properties	12	2,069	2,305	1,974	2,211
Other resources	13	2,566	2,553	4,845	4,824
		P 37,551	P 36,965	P 37,415	P 37,515

Total impairment losses on financial assets amounted to P3,789, P2,970 and P5,052 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P3,029, P2,679 and P4,952 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements.

Total impairment losses (recoveries) on non-financial assets amounted to (P40), P4 and P62 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and (P41), P4 and P62 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements.

Total allowance for impairment transferred upon consolidation of BDO Life in 2016 and ONB in 2015 amounted to P189 and P752, respectively (see Notes 28.4 and 28.7).

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Demand	**P 114,284**	P 104,066	**P 72,579**	P 67,808
Savings	**1,267,983**	1,033,652	**1,257,571**	1,025,873
Time	**522,937**	526,135	**502,863**	509,366
	P 1,905,204	P 1,663,853	**P 1,833,013**	P 1,603,047

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Due to other banks:				
Demand	**P 1,718**	P 1,575	**P 1,718**	P 1,567
Savings	**2,991**	4,441	**2,988**	4,438
Time	**1,358**	984	**1,058**	984
	6,067	7,000	**5,764**	6,989
Due to customers:				
Demand	**112,566**	102,491	**70,861**	66,241
Savings	**1,264,992**	1,029,211	**1,254,583**	1,021,435
Time	**521,579**	525,151	**501,805**	508,382
	1,899,137	1,656,853	**1,827,249**	1,596,058
	P 1,905,204	P 1,663,853	**P 1,833,013**	P 1,603,047

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Philippine pesos	**P 1,521,183**	P 1,347,327	**P 1,464,357**	P 1,296,769
Foreign currencies	**384,021**	316,526	**368,656**	306,278
	P 1,905,204	P 1,663,853	**P 1,833,013**	P 1,603,047

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Less than one year	**P 1,759,153**	P 1,534,073	**P 1,692,447**	P 1,478,876
One to five years	**62,299**	55,013	**56,814**	49,884
Beyond five years	**83,752**	74,767	**83,752**	74,287
	P 1,905,204	P 1,663,853	**P 1,833,013**	P 1,603,047

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 2016, 2015 and 2014. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2016 and 2015 as follows:

		Outstanding Balance			
BSP Approval	Effective Rate	**2016**	2015	Issue Date	Maturity Date
July 10, 2014	3.75%	**P 7,500**	P 7,500	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 27,500		

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, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 20%, 7% and 4%, 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	
	Note	2016	2015	2016	2015
Foreign banks	16.1	P 36,545	P 38,844	P 36,522	P 38,844
Senior notes	16.2	30,150	28,555	30,150	28,555
Local banks		10,334	8,153	–	–
Deposit substitutes		602	570	602	570
Others		22,925	21,421	8,526	8,898
		P 100,556	P 97,543	P 75,800	P 76,867

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2016	2015	2016	2015
Foreign currencies	P 76,177	P 76,865	P 75,796	P 76,843
Philippine pesos	24,379	20,678	4	24
	P 100,556	P 97,543	P 75,800	P 76,867

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2016	2015	2016	2015
One to three months	P 51,456	P 35,927	P 28,825	P 16,664
More than three months to one year	8,544	16,285	6,425	15,780
More than one to three years	25,643	44,123	25,637	43,215
More than three years	14,913	1,208	14,913	1,208
	P 100,556	P 97,543	P 75,800	P 76,867

Bills payable bear annual interest rates of 1.0% to 6.3% in 2016, 0.1% to 12.0% in 2015 and 0.2% to 12.0% in 2014. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9.2, 10 and 31).

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 22):

	2016	2015	2014
BDO Unibank Group			
Senior notes	P 902	P 1,166	P 1,139
Foreign banks	533	335	250
Local banks	223	165	97
Deposit substitutes	11	27	29
BSP	–	–	1
Others	605	490	402
	P 2,274	P 2,183	P 1,918
Parent Bank			
Senior notes	P 902	P 1,166	P 1,139
Foreign banks	533	335	250
Deposit substitutes	11	27	29
Local banks	–	–	8
BSP	–	–	1
Others	196	178	117
	P 1,642	P 1,706	P 1,544

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 three-year tenor with a floating interest rate payable quarterly. As of December 31, 2016 and 2015, the related syndicated term loan have outstanding balance of P24,770 and P23,335, respectively, net of related debt transaction costs.

16.2 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest		Principal Amount	Outstanding Balance 2016		Outstanding Balance 2015	
October 24, 2016	October 24, 2021	2.63%	US$	300	P	**14,986**	P	–
February 16, 2012	February 16, 2017	4.50%		300		**15,164**		14,337
October 22, 2010	April 22, 2016	3.88%		300		–		14,218
					P	**30,150**	P	28,555

The issuance of senior notes in 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

The net proceeds from the issuance of senior notes in 2012 and 2010 were intended for general funding and relending purposes.

17. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (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 issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of December 31, 2016 and 2015, the outstanding balance of the Notes including accrued interest amounted to P10,030.

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, P519 and P80 in 2016, 2015 and 2014, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 22).

18. INSURANCE CONTRACT LIABILITIES

As of December 31, 2016, this account consists of:

Legal policy reserves	P	19,425
Policy and contract claims payable		788
Policyholders' dividends		246
Reserves for policyholders' dividends		89
	P	**20,548**

Insurance contract liabilities may be analyzed as follows:

		Insurance Contract Liabilities		Reinsurers' Share of Liabilities		Net
Aggregate reserves for:						
Ordinary life policies	P	16,364	P	–	P	16,364
VUL contracts		2,931		–		2,931
Group life insurance policies		130		12		118
Policy and contract claims		788		5		783
Policyholders' dividends		246		–		246
Reserves for policyholders' dividends		89		–		89
	P	**20,548**	**P**	**17**	**P**	**20,531**

The movements in legal policy reserves are as follows:

	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net
Balance at the beginning of year	P 14,801	P 95	P 14,706
Premiums received	5,997	12	5,985
Liability released for payments of death, maturity and surrender benefits and claims	(2,428)	(95)	(2,333)
Accretion of investment income or change in unit prices	735	–	735
Foreign exchange adjustments	320	–	320
Balance at end of year	**P 19,425**	**P 12**	**P 19,413**

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the 2016 BDO Unibank Group's statement of financial position (see Note 13).

The movement in Legal policy reserves for the period ended December 31, 2016 is recognized as part of Insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statement of income (see Note 23).

19. OTHER LIABILITIES

Other liabilities consist of the following:

		BDO Unibank Group		Parent Bank	
	Notes	**2016**	2015	**2016**	2015
Accounts payable		**P 14,446**	P 13,208	**P 12,585**	P 11,776
Manager's checks		**12,086**	11,809	**11,938**	11,703
Bills purchased – contra		**10,486**	8,592	**10,486**	8,592
Accrued expenses		**8,234**	8,441	**7,555**	7,917
Lease deposits		**5,693**	5,087	**104**	98
Derivatives with negative fair values	9.1, 25(d)	**5,475**	4,167	**1,818**	1,193
Outstanding acceptances payable		**3,194**	1,762	**3,194**	1,762
Premium on deposit fund		**2,533**	–	**–**	–
Withholding taxes payable		**1,568**	1,386	**1,451**	1,293
Capitalized interest and other charges		**393**	385	**349**	344
Due to principal		**385**	375	**–**	–
Due to BSP and Treasurer of the Philippines		**81**	81	**78**	78
Unearned income		**3**	2	**–**	–
Others		**6,508**	4,920	**5,762**	4,615
		P 71,085	P 60,215	**P 55,320**	P 49,371

The liability for unredeemed reward points amounting to P2,355 and P2,488 as of December 31, 2016 and 2015, respectively, presented as part of Accrued expenses above 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).

Accounts payable includes the amount pertaining to BDO Unibank Group's ESOP which is equivalent to the cumulative amount of amortized awarded share options and the amounts paid by the eligible senior officers who exercised their options (see Notes 24.3 and 20.7).

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

Interest expense on certain liabilities amounting to P80, P7 and P8 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P6, P7, and P8 in 2016, 2015 and 2014, respectively, in 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 22).

20. EQUITY

20.1 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 of December 31, 2016 and 2015, 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 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, 2016 and 2015 follows:

	BDO Unibank Group	Parent Bank
December 31, 2016		
Tier 1 Capital		
CET 1	P 210,641	P 208,770
Additional Tier 1	5,150	5,150
	215,791	213,920
Tier 2 Capital	24,762	24,088
Total Regulatory Capital	240,553	238,008
Deductions	(21,937)	(49,633)
Total Qualifying Capital	P 218,616	P 188,375
Total Risk-Weighted Assets	P 1,769,590	P 1,649,361
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	12.4%	11.4%
Tier 1 Capital Ratio	11.0%	10.0%
Total CET 1 Ratio	10.7%	9.6%
December 31, 2015		
Tier 1 Capital		
CET 1	P 192,838	P 193,105
Additional Tier 1	5,150	5,150
	197,988	198,255
Tier 2 Capital	24,612	23,815
Total Regulatory Capital	222,600	222,070
Deductions	(22,125)	(49,341)
Total Qualifying Capital	P 200,475	P 172,729
Total Risk-Weighted Assets	P 1,503,291	P 1,414,579
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%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount			
	2016	2015		**2016**		2015
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
Common shares – P10 par value						
Authorized – 4,500,000,000 shares						
Issued, fully paid and outstanding:						
Balance at beginning of year	3,645,375,218	3,580,875,328	**P**	**36,453**	P	35,808
Issued during the year	4,592,430	64,499,890		**47**		645
Balance at end of year	**3,649,967,648**	3,645,375,218	**P**	**36,500**	P	36,453

20.2.1 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.

20.2.2 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
Stock options	Various employee	June 6, 2016 to December 31, 2016	4,592,430
			3,649,967,648

As of December 31, 2016 and 2015, there are 12,761 and 12,835, respectively, holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P112.1 and P105 per share as of December 29, 2016 and 2015, respectively (the last trading day in 2016 and 2015).

20.3 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, 2016 and 2015, 288 and 200 ADRs valued at US$6,333 and US$4,346 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$21.99/share and US$21.73/share respectively).

20.4 Surplus Free

On December 3, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,095. The dividends were declared to stockholders of record as of December 19, 2016 and paid on December 29, 2016.

On August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

On February 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share in respect of the 2015 earnings. On May 28, 2016, the Parent Bank's BOD declared another cash dividend of P0.30 per share. Total dividends is P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

On February 24, 2016, the BOD of BDO Leasing, a subsidiary of the Parent Bank approved the declaration of cash dividends at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P432. The dividends were declared to stockholders of record as of March 11, 2016 and paid on March 30, 2016, of which, total dividends paid to non-controlling interest amounted to P50.

On January 30, 2016, 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. The dividends were paid on February 16, 2016.

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 is 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.

20.5 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to P28 and P25 in 2016 and 2015, respectively, representing insurance fund on losses due to fire and robbery. This was approved by the Parent Bank's President.

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 28.3).

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.

Also, included in the 2016, 2015 and 2014 surplus reserve are the appropriations made by BDO Securities, BDO Nomura (formerly PCIB Securities, Inc.) and Armstrong Securities, Inc. totaling P8, P14 and P17, 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 P240 and P215 in 2016 and 2015, respectively, and P182 and P171 in 2016 and 2015, respectively, is appropriated to surplus reserves (see Note 26).

20.6 Other Reserves

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.

20.7 ESOP

For options that were vested in 2016, BDO Unibank Group issued new common shares of 4,592,430 from its authorized capital stock. Prior to 2016, shares for vested options were sourced from the secondary market (see Notes 19 and 24.3).

Set out below are summaries of number of options vested under the plan:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Balance at beginning of year	**833,276**	159,924	**666,574**	121,766
Vested during the year	**10,788,464**	9,066,034	**9,876,464**	8,300,594
Exercised during the year	**(8,064,629)**	(8,392,682)	**(7,561,539)**	(7,755,786)
Balance at end of year	**3,557,111**	833,276	**2,981,499**	666,574

21. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	**2016**	2015	2014
Loans and other receivables	10, 25	**P 73,171**	P 63,836	P 53,907
Trading and investment securities	9	**8,142**	7,477	7,333
Due from BSP and other banks	7, 8	**696**	795	2,065
Others		**28**	19	278
		P 82,037	P 72,127	P 63,583

		Parent Bank		
	Notes	**2016**	2015	2014
Loans and other receivables	10, 25	**P 69,570**	P 61,128	P 52,172
Trading and investment securities	9	**6,494**	6,743	6,813
Due from BSP and other banks	7, 8	**565**	635	1,822
Others		**18**	13	64
		P 76,647	P 68,519	P 60,871

22. INTEREST EXPENSE

Interest expense is composed of the following:

		BDO Unibank Group		
	Notes	**2016**	2015	2014
Deposit liabilities	15	**P 13,623**	P 12,526	P 10,441
Bills payable and other liabilities	16, 17, 18 19, 24.2	**2,790**	2,640	1,917
		P 16,413	P 15,166	P 12,358

		Parent Bank		
	Notes	**2016**	2015	2014
Deposit liabilities	15	**P 12,898**	P 12,075	P 10,181
Bills payable and other liabilities	16, 17, 19, 24.2	**2,091**	2,163	1,547
		P 14,989	P 14,238	P 11,728

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		BDO Unibank Group		
	Notes	**2016**	2015	2014
Service charges, fees and commissions	25	**P 19,056**	P 16,453	P 15,386
Insurance premiums		**8,051**	–	–
Trust fees	26	**3,123**	2,909	2,624
Foreign exchange gains		**2,985**	2,433	1,244
Trading gains – net	9.1, 9.2	**1,860**	4,740	5,868
Rental	12	**1,475**	1,262	992
Income from assets sold or exchanged	12	**809**	774	1,067
Dividend		**440**	459	490
Miscellaneous – net	13, 28	**3,821**	2,909	1,816
		P 41,620	P 31,939	P 29,487

		Parent Bank		
	Notes	2016	2015 (As Restated – see Note 2.1)	2014 (As Restated – see Note 2.1)
Service charges, fees and commissions	25	P **15,491**	P 13,660	P 13,151
Share in net income of subsidiaries and associates	13.1	**3,516**	2,276	2,368
Foreign exchange gains		**2,703**	2,120	1,043
Trust fees	26	**2,491**	2,322	2,180
Trading gains – net	9.1, 9.2	**1,061**	4,167	5,694
Income from assets sold or exchanged	12	**767**	686	1,022
Rental	12	**494**	356	271
Dividend		**132**	211	252
Miscellaneous – net	13, 28	**698**	2,847	1,052
		P **27,353**	P 28,645	P 27,033

Other operating expenses consist of the following:

		BDO Unibank Group		
	Notes	2016	2015	2014
Compensation and benefits	24.1	P **24,698**	P 21,120	P 18,081
Occupancy	13.8, 25, 33.2	**7,661**	6,675	5,704
Taxes and licenses	18	**7,224**	6,683	5,780
Policy reserves, insurance benefits and claims		**5,901**	–	–
Fees and commissions		**5,348**	3,712	3,147
Insurance		**3,802**	3,300	2,856
Security, clerical, messengerial and janitorial		**2,914**	2,628	2,526
Advertising		**2,711**	2,155	2,427
Representation and entertainment		**1,594**	1,442	1,146
Travelling		**1,204**	1,059	871
Repairs and maintenance		**1,123**	1,036	959
Power, light and water		**959**	903	920
Supplies		**691**	522	515
Telecommunication		**488**	420	432
Amortization of computer software	13.8	**444**	285	206
Information technology		**443**	427	383
Litigation on assets acquired		**408**	152	461
Freight		**302**	259	241
Miscellaneous		**2,224**	2,366	1,875
		P **70,139**	P 55,144	P 48,530

		Parent Bank		
	Notes	**2016**	2015	2014
Compensation and benefits	24.1	**P 21,508**	P 19,593	P 16,905
Occupancy	13.8, 25, 33.2	**6,459**	5,723	4,988
Taxes and licenses	12	**6,227**	5,904	5,280
Fees and commissions		**4,464**	3,408	2,788
Insurance		**3,593**	3,181	2,771
Security, clerical, messengerial and janitorial		**2,728**	2,521	2,467
Advertising		**2,600**	2,026	2,323
Representation and entertainment		**1,401**	1,270	999
Repairs and maintenance		**1,052**	994	933
Travelling		**1,003**	909	790
Power, light and water		**862**	839	861
Supplies		**567**	465	480
Information technology		**408**	400	369
Telecommunication		**384**	358	381
Amortization of computer software	13.8	**380**	249	196
Litigation on assets acquired		**378**	121	435
Freight		**282**	253	238
Miscellaneous		**2,083**	2,180	1,632
		P 56,379	P 50,394	P 44,836

24. COMPENSATION AND BENEFITS

24.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

	BDO Unibank Group		
	2016	2015	2014
Salaries and wages	**P 15,009**	P 12,320	P 10,896
Bonuses	**4,608**	4,091	3,502
Retirement – defined benefit plan	**1,301**	1,211	1,096
Employee stock option plan	**836**	860	232
Social security costs	**583**	503	468
Other benefits	**2,361**	2,135	1,887
	P 24,698	P 21,120	P 18,081

	Parent Bank		
	2016	2015	2014
Salaries and wages	**P 12,811**	P 11,330	P 10,153
Bonuses	**4,193**	3,799	3,297
Retirement – defined benefit plan	**1,134**	1,105	991
Employee stock option plan	**739**	860	232
Social security costs	**500**	460	429
Other benefits	**2,131**	2,039	1,803
	P 21,508	P 19,593	P 16,905

24.2 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 five years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of ten 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 2016 and 2015.

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	
	2016	2015	**2016**	2015
Fair value of plan assets	**P 21,850**	P 20,146	**P 20,093**	P 18,626
Present value of the DBO	**(21,086)**	(18,709)	**(19,253)**	(17,321)
Excess of plan assets	**764**	1,437	**840**	1,305
Effect of asset ceiling	**(55)**	(82)	**(44)**	(68)
	P 709	P 1,355	**P 796**	P 1,237

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 20,146**	P 18,602	**P 18,626**	P 17,691
Contributions paid into the plan	**1,471**	1,550	**1,355**	1,355
Interest income	**1,009**	885	**926**	818
Benefits paid by the plan	**(814)**	(726)	**(739)**	(693)
Addition due to acquisition of a new subsidiary*	**107**	435	**–**	–
Remeasurement loss – return on plan assets (excluding amounts included in net interest)	**(69)**	(600)	**(75)**	(545)
Balance at end of year	**P 21,850**	P 20,146	**P 20,093**	P 18,626

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 18,709**	P 17,325	**P 17,321**	P 16,447
Current service cost	**1,296**	1,211	**1,134**	1,105
Interest expense	**922**	809	**847**	747
Benefits paid by the plan	**(814)**	(726)	**(739)**	(693)
Addition due to acquisition of a new subsidiary*	**85**	492	**–**	–
Remeasurements:				
Actuarial (gains) losses arising from changes in:				
– financial assumption	**191**	(130)	**152**	(82)
– demographic assumptions	**23**	(416)	**–**	(392)
– experience adjustments	**674**	144	**538**	189
Balance at end of year	**P 21,086**	P 18,709	**P 19,253**	P 17,321

** Addition due to acquisition of a new subsidiary pertains to the retirement plan of BDO Life and ONB which was acquired in 2016 and 2015, respectively (see Notes 28.4 and 28.7).*

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	
	2016	2015	**2016**	2015
Placements in debt instruments:				
Government bonds	**P 8,884**	P 8,071	**P 8,190**	P 7,475
Corporate bonds	**3,957**	3,783	**3,669**	3,543
Unit investment trust funds (UITFs)	**4,015**	2,163	**3,771**	1,971
Cash and cash equivalents	**2,495**	4,008	**2,343**	3,794
Equity instruments	**735**	539	**464**	346
Loans and other receivables	**180**	247	**167**	235
Other properties	**1,584**	1,335	**1,489**	1,262
	P 21,850	P 20,146	**P 20,093**	P 18,626

Actual returns on plan assets were P940 and P851 in 2016 and P285 and P273 in 2015 in BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 25(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		
	2016	2015	2014
Recognized in profit or loss:			
Current service costs	**P 1,296**	P 1,211	P 1,096
Interest income	**(83)**	(72)	(88)
	P 1,213	P 1,139	P 1,008
Recognized in other comprehensive income, net of tax (see Note 29.1):			
Actuarial gains (losses) arising from:			
– changes in financial assumptions	**(P 134)**	P 91	(P 48)
– changes in demographic assumptions	**(16)**	292	360
– experience adjustments	**(472)**	(101)	(327)
Remeasurement losses arising from:			
– return on plan assets (excluding amounts included in net interest expense)	**(48)**	(420)	(25)
– changes in the effect of the asset ceiling	**22**	(24)	(19)
Share in actuarial gains of associates	**3**	8	12
	(P 645)	(P 154)	(P 47)

	Parent Bank		
	2016	2015 (as restated – see Note 2.1)	2014 (as restated – see Note 2.1)
Recognized in profit or loss:			
Current service costs	**P 1,134**	P 1,105	P 991
Interest income	**(76)**	(69)	(86)
	P 1,058	P 1,036	P 905
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from change in:			
– financial assumptions	**(P 106)**	P 57	(P 55)
– demographic assumptions	**–**	275	336
– experience adjustments	**(377)**	(133)	(302)
Remeasurement gain (loss) arising from:			
– return on plan assets (excluding amounts included in net interest expense)	**(53)**	(381)	(28)
– changes in the effect of the asset ceiling	**20**	(4)	(14)
Share in actuarial gains (losses) of subsidiaries and associates	**(129)**	3	15
	(P 645)	(P 183)	(P 48)

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 23) while interest income are netted against Interest Expense account (see Note 22) 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 the statements of comprehensive income.

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Discount rates	**5.50%**	4.89% – 5.50%	**5.50%**	4.89%
Expected rate of salary increases	**9.00%**	8.00%	**9.00%**	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 years. 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 asset as of December 31, 2016 and 2015:

	Impact on retirement benefit asset		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
BDO Unibank Group			
December 31, 2016			
Discount rate	**1%**	**P 703**	**(P 791)**
Salary increase rate	**1%**	**(680)**	**621**
December 31, 2015			
Discount rate	1%	P 619	(P 696)
Salary increase rate	1%	(595)	543

	Impact on retirement benefit asset		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Parent Bank			
December 31, 2016			
Discount rate	**1%**	**P 565**	**(P 630)**
Salary increase rate	**1%**	**(538)**	**496**
December 31, 2015			
Discount rate	1%	P 515	(P 575)
Salary increase rate	1%	(488)	449

The sensitivity analysis in the previous page 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.

(ii) 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, 2016 and 2015 consists of debt instruments and UITFs, although the BDO Unibank Group and Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2016, the plan of BDO Unibank Group and the Parent Bank is currently fully funded based on the latest actuarial valuation report.

BDO Unibank Group expects to pay P176 as contributions to retirement benefit plans in 2017 (nil for the Parent Bank).

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

	BDO Unibank Group	Parent Bank
Between one to five years	P 8,679	P 8,127
Between six to ten years	16,669	15,585
	P 25,348	**P 23,712**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.9 to 17.2 years for the BDO Unibank Group and 7.2 years for the Parent Bank.

24.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2016 and 2015, vested shares totaled 10,788,464 and 9,066,034, respectively for BDO Unibank Group, 9,876,464 and 8,300,594 shares, respectively for Parent Bank.

The ESOP expense, included as part of Salaries and employee benefits under Operating Expenses in the BDO Unibank Group's statements of income, amounted to P836, P860 and P232 in 2016, 2015 and 2014, respectively, and in the Parent Bank's statements of income, amounted to P739, P860 and P232, respectively (see Note 24.1).

25. 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, 2016 and 2015 are as follows:

		2016		2015	
Related Party Category	Note	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
DOSRI Loans	25(a)				
Stockholders		P 16,529	P 11,309	P 12,588	P 12,012
Related Parties Under Common Ownership		42,812	10,333	26,745	16,217
Officers and Employees		1,296	1,598	1,112	1,455
Deposit Liabilities	25(b)				
Stockholders		386,266	68,009	339,476	61,034
Related Parties Under Common Ownership		403,677	6,745	498,553	15,513
Officers and Employees		36	7	3	3
Other Transactions with Associates	25(d)				
Loans and Advances		–	730	5	1,225
Interest Income		58	2	17	59
Service Fees		–	–	51	14
Related Parties Under Common Ownership					
Rent Expense	25(d)	915	103	760	78
Key Management Personnel	25(d)				
Compensation		1,473	–	1,529	–
Retirement Plan	25(c)	109	3,731	224	3,081

The summary of the Parent Bank's significant transactions with its related parties as of and for the years ended December 31, 2016 and 2015 are as follows:

		2016		2015	
Related Party Category	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI Loans	25(a)				
Stockholders		**P 16,529**	**P 11,309**	P 12,586	P 12,012
Related Parties Under Common Ownership		**42,812**	**10,330**	26,702	16,104
Officers and Employees		**1,289**	**1,587**	1,094	1,442
Deposit Liabilities	25(b)				
Stockholders		**386,266**	**68,009**	339,476	61,034
Related Parties Under Common Ownership		**403,677**	**6,745**	498,553	15,513
Officers and Employees		**36**	**7**	3	3
Other Transactions with Subsidiaries	25(d)				
Loans and Advances		**42,035**	**5,959**	45,119	6,980
Derivative Assets		**742**	**22**	99	10
Derivative Liabilities		**600**	**4**	574	6
Deposit Liabilities		**699**	**3,701**	198	3,002
Interest Income		**128**	**6**	207	102
Rent Income		**96**	**–**	58	–
Service Fees		**222**	**–**	65	–
Interest Expense		**13**	**–**	11	–
Rent Expense		**9**	**–**	9	–
Other Transactions with Associates	25 (d)				
Service Fees		**–**	**–**	51	14
Related Parties Under Common Ownership					
Rent Expense	25(d)	**820**	**103**	699	78
Key Management Personnel	25(d)				
Compensation		**1,045**	**–**	1,079	–
Retirement Plan	25(c)	**109**	**3,728**	224	3,079

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 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 in 2016, 2015 and 2014 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, 2016 and 2015, 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	
	2016	2015	**2016**	2015
Total DOSRI loans	**P 23,240**	P 29,684	**P 23,226**	P 29,558
Unsecured DOSRI loans	**1,297**	1,148	**1,295**	1,145
Past due DOSRI loans	**–**	–	**–**	–
Non-performing DOSRI loans	**–**	–	**–**	–
% of DOSRI loans to total loan portfolio	**1.57%**	2.3%	**1.63%**	2.4%
% of unsecured DOSRI loans to total DOSRI loans	**5.58%**	3.9%	**5.58%**	3.9%
% 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% both in 2016 and 2015, and 2.2% to 12.0% in 2014 (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 2016 amounted to P60,637 and P67,087 for BDO Unibank Group and P60,629 and P66,961 for the Parent Bank, respectively. Total loan releases and collections in 2015, on the other hand, amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively.

BDO Unibank Group and the Parent Bank assessed that these loans are not impaired in 2016 and 2015.

(b) Deposits from Related Parties

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P789,979 and P838,032 in 2016 and 2015, respectively, and bearing interest rates range of 0.0% to 5.3% both in 2016 and in 2015. The related interest expense from deposits amounted to P2,391 and P1,672 and P906 in 2016, 2015 and 2014, respectively (see Note 22).

(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, 2016 and 2015 as follows:

	BDO Unibank Group		Parent Bank	
Transactions	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
December 31, 2016				
Loans to employees				
BDO Unibank, Inc.	P –	P 40	P –	P 40
BDO Leasing	–	1	–	–
Investment in shares of –				
BDO Unibank, Inc.	–	15	–	15
BDO Leasing	–	2	–	–
Deposit liabilities (including LTNCDs)				
BDO Unibank, Inc.	–	3,673	–	3,673
Trading gain				
BDO Unibank, Inc.	105	–	105	–
Interest expense				
BDO Unibank, Inc.	4	–	4	–
December 31, 2015				
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 (including LTNCDs)				
BDO Unibank, Inc.	–	3,011	–	3,011
Trading gain				
BDO Unibank, Inc.	219	–	219	–
Interest expense				
BDO Unibank, Inc.	5	–	5	–

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 24.

(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 in the section that follow. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's 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 advances granted and collected amounted to P344 and P478, respectively, in 2016 and P417 and P346, respectively, in 2015. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P29 and P163 as of December 31, 2016 and 2015, respectively (see Note 10).

The Parent Bank also grants unsecured and interest-bearing loans to subsidiaries with outstanding balance of P5,931 and P6,715 as of December 31, 2016 and 2015, 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). Total loans granted amounted to P41,691 and P44,702 while total loans collected amounted to P42,578 and P45,751, for 2016 and 2015, respectively. These loans are payable in cash with a term between one month to two years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 25). Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2016, 2015 and 2014.

(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, 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.

Total service fees 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 23). There are no outstanding balance arising from these transactions as of December 31, 2016 and 2015.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life 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. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2016 and 2015 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

Certain subsidiaries lease office space from the Parent Bank. Total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income income in the Parent Bank's statements of income (see Note 23). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2016 and 2015.

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 P90, P82 and P119 in 2016, 2015 and 2014, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2016 and 2015.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank statements of income (see Note 23). The lease term is between 10 to 20 years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2016 and 2015.

(4) Derivatives

In 2016 and 2015, 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, 2016 and 2015, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivative with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank bear an interest rates of 0.0% to 2.6% in 2016 and 0.0% to 1.5% in 2015. These related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of financial position (see Note 22).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2016 and 2015, BDO Unibank Group has outstanding unsecured and interest-bearing loans and advances to associates (nil for the Parent Bank) 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 P487 and P13 in 2016 and 2015, respectively.

Annual interest rate on these loans ranges from 6.6% to 7.7% for the years 2016, 2015 and 2014. The related interest income is presented as part of Interest Income on loans and other receivables in the Parent Bank's statements of income (see Note 21). As of December 31, 2016 and 2015, there were no impairment losses recognized on these loans and advances.

(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, 2016, 2015 and 2014, total rent paid to related parties amounted to P820, P699 and P608, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 23). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P103 and P78 as of December 31, 2016 and 2015, respectively and is included as part of Accounts payable under Other Liabilities (see Note 19).

(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 24.1):

	BDO Unibank Group					
	2016		2015		2014	
Salaries and wages	**P**	**804**	P	863	P	786
Bonuses		**344**		406		377
Social security costs and other benefits		**54**		83		39
Post-employment benefits		**271**		177		140
	P	**1,473**	P	1,529	P	1,342

	Parent Bank					
	2016		2015		2014	
Salaries and wages	**P**	**583**	P	605	P	562
Bonuses		**260**		287		271
Social security costs and other benefits		**35**		58		28
Post-employment benefits		**167**		129		97
	P	**1,045**	P	1,079	P	958

26. 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 33.3).

	BDO Unibank Group				Parent Bank			
	2016		2015		**2016**		2015	
Investments	**P**	**1,021,927**	P	910,720	**P**	**749,768**	P	663,127
Others		**7,186**		6,627		**6,095**		5,428
	P	**1,029,113**	P	917,347	**P**	**755,863**	P	668,555

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of AFS securities (see Note 9) with a total face value of P11,249 and P9,667 as of December 31, 2016 and 2015, respectively, in BDO Unibank Group and P7,650 and P6,865 as of December 31, 2016 and 2015, 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, 2016 and 2015, the additional reserve for trust functions amounted to P240 and P215, respectively, for BDO Unibank Group and P182 and P171 respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P3,123, P2,909 and P2,624 for the years ended December 31, 2016, 2015 and 2014, respectively, in BDO Unibank Group statements of income and P2,491, P2,322, and P2,180 for the years ended December 31, 2016, 2015 and 2014, respectively, in the Parent Bank statements of income (see Note 23).

27. UNIT-LINKED FUNDS

Variable unit-linked (VUL) life insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value (NAV) per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from Insurance Commission to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2016, BDO Life has 10 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities are presented in the table in the succeeding page. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

Assets:		
Cash and cash equivalents	P	78
Financial assets at FVTPL		2,916
Other receivables		6
	P	**3,000**
Liabilities and Equity:		
Other liabilities	P	27
Net assets attributable to unitholders		2,973
	P	**3,000**

28. MERGERS AND ACQUISITIONS

28.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

28.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club tradename by the Parent Bank for a period of five years. Presented in the succeeding page is the analysis of the transaction.

Credit card receivables	P	586
Liabilities	(	18)
Net asset acquired		568
Cash consideration		(733)
Trademark (see Note 13.7)	P	165

28.3 Three Way Merger among BDO Capital, BDO Savings and BDO Elite

On July 22, 2015, the shareholders of BDO Capital, BDO Savings and BDO Elite 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 was approved by the SEC on June 30, 2016. Approval documents were received only on July 21, 2016; thus, the consolidation took effect on July 31, 2016. In the implementation of the merger, all the shares of the capital stock of BDO Elite and BDO Savings issued and outstanding on the effective date of the merger were cancelled. A total of 7,000,399 new shares of stock of BDO Capital were then issued in exchange for the cancelled BDO Elite and BDO Savings shares of stock, as follows:

(a) 1,000,000 shares out of the unissued authorized capital stock; and,

(b) 6,000,399 shares out of the increase in authorized capital stock.

The BDO Elite and BDO Savings shareholders were issued a total of 3,391,113 and 3,609,286 BDO Capital shares, respectively.

28.4 Acquisition of BDO Life

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 BDO Life, 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 GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former. The transaction resulted in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 BDO Unibank Group's financial statements (see Note 23).

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P 2,549
Book value	(1,921)
Gain on fair valuation of previously-held interest	P 628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P 851
Trading and investment securities	25,882
Loans and other receivables	563
Bank premises, furniture, fixtures and equipment	54
Other resources	104
Total resources	27,454
Insurance contract liabilities	17,910
Other liabilities	3,173
Total liabilities	21,083
Net assets acquired	6,371
Fair value of the investment for the previously held interest in BDO Life	(2,549)
Consideration transferred (for the 60% ownership interest)	(2,236)
Gain on bargain purchase	P 1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life (see Notes 2.3 and 13.1).

28.5 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the 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 new 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. Subsequently, PCIB Securities was renamed as BDO Nomura.

28.6 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd. (JACCS)

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, to be named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% of the company while MMPC, SJC and JACCS jointly hold the remaining 60% stake (see Note 13.1).

28.7 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 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 total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

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 13.3)	P 2,903

On June 17, 2016, the Parent Bank entered into a Sale and Purchase Agreement with TPG Growth III SF PTE. Ltd (TPG) whereby the latter shall purchase 98,949,533 common shares of ONB (constituting 40%) held by the Parent Bank. The transaction has been approved by the BSP on December 8, 2016 and is still subject to the completion of certain closing conditions.

28.8 Purchase of Assets and Assumption of Liabilities of The Real Bank (A Thrift Bank), Inc.

On August 8, 2014, the Parent Bank and 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 Parent 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 13.4). In 2015, the P2,000 deficiency was settled through issuance of term loan under contract-to-sell financing. As of December 31, 2016 and 2015, the outstanding balance amounted to P1,916 and P2,000 respectively, and is presented as part of Loans and discounts under Loans and Other Receivables account in the statements of financial position (see Note 10).

28.9 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 33.3). 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 13.8).

29. TAXES

29.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2016	2015	2014
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 5,528**	P 3,510	P 3,401
Minimum corporate income tax (MCIT) at 2%	**16**	665	369
Final taxes at 20%, 15%, 10% and 7.5%	**1,220**	1,305	1,084
	6,764	5,480	4,854
Deferred tax expense (income) relating to origination and reversal of temporary differences	**33**	221	(74)
	6,797	5,701	4,780
Application of previously unrecognized MCIT	**–**	–	(540)
	P 6,797	P 5,701	P 4,240
Reported in other comprehensive income			
Actuarial losses	**(P 267)**	(P 100)	(P 22)
Fair value of AFS securities	**(21)**	(67)	4
Reversal of revaluation increment	**–**	(8)	–
	(P 288)	(P 175)	(P 18)

	Parent Bank		
	2016	2015	2014
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 4,651**	P 3,510	P 3,202
Final taxes at 20%, 15%, 10% and 7.5%	**870**	1,086	9
	5,521	4,596	4,135
Deferred tax expense (income) relating to origination and reversal of temporary differences	**192**	233	(73)
	5,713	4,829	4,062
Application of previously unrecognized MCIT	**–**	–	(540)
Tax expense reported in the statements of income	**P 5,713**	P 4,829	P 3,522
Reported in other comprehensive income			
Actuarial losses	**(P 221)**	(P 80)	(P 26)
Reversal of revaluation increment	**–**	(8)	–
	(P 221)	(P 88)	(P 26)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2016	2015	2014
Tax on pretax profit at 30%	**P 9,870**	P 9,227	P 8,120
Adjustment for income subjected to lower income tax rates	**(349)**	(657)	(430)
Tax effects of:			
Income exempt from tax	**(2,868)**	(3,076)	(3,446)
Non-deductible expenses	**1,734**	891	791
Deductible temporary differences not recognized	**(1,022)**	(713)	(266)
NOLCO not recognized	**20**	(9)	6
Utilization of previously unrecognized net operating loss carryover (NOLCO)	**(30)**	–	(501)
Application of previously unrecognized MCIT	**–**	–	(540)
Others	**(558)**	38	506
Tax expense reported in profit or loss	**P 6,797**	P 5,701	P 4,240

	Parent Bank		
	2016	2015 (As Restated – see Note 2.1)	2014 (As Restated – see Note 2.1)
Tax on pretax profit at 30%	**P 8,889**	P 8,946	P 7,898
Adjustment for income subjected to lower income tax rates	**(399)**	(431)	(359)
Tax effects of:			
Income exempt from tax	**(3,216)**	(3,653)	(3,342)
Deductible temporary differences not recognized	**(1,021)**	(773)	(283)
Non-deductible expenses	**1,460**	740	630
Application of previously unrecognized MCIT	**–**	–	(540)
Utilization of previously unrecognized NOLCO	**–**	–	(482)
Tax expense reported in profit or loss	**P 5,713**	P 4,829	P 3,522

Components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Deferred tax assets:				
Allowance for impairment	**P 6,271**	P 6,117	**P 5,858**	P 5,823
Unamortized past service costs	**1,338**	1,445	**1,253**	1,409
Lease income differential	**121**	106	**121**	106
NOLCO	**1**	17	**–**	–
Others	**34**	44	**–**	–
	7,765	7,729	**7,232**	7,338
Deferred tax liabilities:				
Retirement asset	**607**	776	**651**	784
Revaluation increment	**432**	432	**431**	431
Changes in fair values of AFS securities	**60**	74	**–**	–
Lease income differential	**54**	85	**–**	–
Capitalized interest	**53**	56	**53**	55
Others	**225**	227	**–**	–
	1,431	1,650	**1,135**	1,270
Net deferred tax assets	**P 6,334**	P 6,079	**P 6,097**	P 6,068

Movements in net deferred tax assets for the year ended December 31 follow:

BDO Unibank Group

	Statements of Income		
	2016	2015	2014
Unamortized past service costs	**P 154**	P 163	(P 310)
Allowance for impairment	**(117)**	–	(300)
Retirement asset	**87**	116	500
Lease income differential	**(46)**	42	38
NOLCO	**17**	14	4
Capitalized interest	**(3)**	(2)	(3)
Others	**(59)**	(28)	73
Deferred tax expense (income)	**P 33**	P 221	(P 74)

Parent Bank

	Statements of Income		
	2016	2015	2014
Unamortized past service costs	**P 155**	P 147	(P 307)
Retirement asset	**89**	96	556
Allowance for impairment	**(35)**	–	(310)
Lease income differential	**(14)**	(7)	(9)
Capitalized interest	**(3)**	(3)	3
Deferred tax expense (income)	**P 192**	P 233	(P 73)

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Movements in actuarial losses	**(P 267)**	(P 100)	**(P 221)**	(P 80)
Movements in fair value of AFS securities	**(21)**	(67)	**–**	–
Movements in revaluation increment	**–**	(8)	**–**	(8)
Deferred tax income	**(P 288)**	(P 175)	**(P 221)**	(P 88)

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
2016	P 20	P 11	2019
2015	8	12	2018
2014	689	8	2017
	P 717	P 31	

In 2016, NOLCO and MCIT amounting to P161 and P20, respectively, expired for BDO Unibank Group (nil for the Parent Bank). The remaining NOLCO and MCIT of BDO Savings amounting to P348 and P4, respectively, were not allowed to be carried over to BDO Capital, the surviving entity, as a result of the merger (see Note 28.3).

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2016 and 2015 are as follows:

	BDO Unibank Group			
	2016		2015	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 20,579**	**P 6,174**	P 16,089	P 4,827
NOLCO	**717**	**215**	1,249	375
MCIT	**31**	**31**	44	44
Others	**1,885**	**565**	1,947	584
	P 23,212	**P 6,985**	P 19,329	P 5,830

	Parent Bank			
	2016		2015	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 19,899**	**P 5,970**	P 18,140	P 5,442
Others	**1,948**	**584**	1,947	584
	P 21,847	**P 6,554**	P 20,087	P 6,026

BDO Unibank Group continues claiming itemized deduction for income tax purposes.

29.2 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.

29.3 Documentary Stamp Tax

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 affectivity 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.

29.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

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 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.

30. EARNINGS PER SHARE

Basic earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2016	2015	2014
Net profit attributable to shareholders of the Parent Bank	**P 26,090**	P 25,016	P 22,805
Dividends on preferred shares	**(339)**	(339)	(339)
Net profit available to common shares	**25,751**	24,677	22,466
Divided by the weighted average number of outstanding common shares (in millions)	**3,646**	3,610	3,581
Basic earnings per share	**P 7.06**	P 6.84	P 6.27

Diluted earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2016	2015	2014
Net profit attributable to shareholders of the Parent Bank	**P 25,751***	P 24,677*	P 22,466*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,646**	3,610	3,581
Potential common shares from assumed conversion of preferred shares	*	*	*
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,646**	3,610	3,581
Diluted earnings per share	**P 7.06**	P 6.84	P 6.27

** 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 stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2016	2015	2014
Net profit	**P 23,916**	P 24,994	P 22,804
Dividends on preferred shares	**(339)**	(339)	(339)
Net profit available to common shares	**23,577**	24,655	22,465
Divided by the weighted average number of outstanding common shares (in millions)	**3,646**	3,610	3,581
Basic earnings per share	**P 6.47**	P 6.83	P 6.27

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2016	2015	2014
Net profit	**P 23,577***	P 24,655*	P 22,465*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,646**	3,610	3,581
Potential common shares from assumed conversion of convertible preferred shares	*	*	–
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,646**	3,610	3,581
Diluted earnings per share	**P 6.47**	P 6.83	P 6.27

** Net profit 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 stock option plan are partially purchased in the secondary market and partially made through primary issuance but do not significantly affect the computation of diluted earnings per share.*

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2016	2015	2014
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**12.5%**	13.4%	13.4%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.3%	1.3%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.2%
Return on common equity:			
Net profit / Average common equity	**12.6%**	13.6%	13.6%
Liquidity ratio:			
Total liquid resources / Total resources	**33.5%**	33.8%	38.1%
Debt to equity:			
Total liabilities / Total equity	**968.8%**	917.6%	937.3%
Resources to equity:			
Total resources / Total equity	**1,068.8%**	1,017.6%	1,037.3%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**300.4%**	302.8%	319.0%
Profit margin:			
Net profit / Revenues	**21.1%**	24.1%	24.5%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**12.4%**	13.3%	14.4%

** Computed using balances prepared under PFRS*

	2016	2015	2014
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**11.8%**	13.9%	13.9%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.4%	1.4%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.2%
Return on common equity:			
Net profit / Average common equity	**12.0%**	14.1%	14.3%
Liquidity ratio:			
Total liquid resources / Total resources	**31.5%**	32.6%	37.2%
Debt to equity:			
Total liabilities / Total equity	**918.5%**	872.9%	907.4%
Resources to equity:			
Total resources / Total equity	**1,018.5%**	972.9%	1,007.4%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**297.7%**	309.5%	324.5%
Profit margin:			
Net profit / Revenues	**23.0%**	25.7%	25.9%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**11.4%**	12.2%	13.1%

* Computed using balances prepared under PFRS

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Aggregate amount of secured liabilities	**P 1,800**	P 1,682	**P 602**	P 577
Aggregate amount of resources pledged as security	**P 4,597**	P 6,723	**P 780**	P 2,906

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Stock Rights Offering

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively.

On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per Rights Share. The offer period ran from January 16, 2017 to January 24, 2017. Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017.

The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

32.2 Conversion of the Parent Bank's Preferred Shares to Common Shares

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary preferred shares, each with a par value of P10 per share, into 1,0000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The transaction is still subject to regulatory approvals.

32.3 Dividends

On January 27, 2017, 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 P340. The dividends will be paid within 60 days from dividend declaration date.

33. COMMITMENTS AND CONTINGENCIES

33.1 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, 2016, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

33.1.1 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 10 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. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (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 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 August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (1) jurisdiction to hear actions assailing the validity of the exercise of quasi-legislative powers of the Commissioner of Internal Revenue pertains to the regular courts after review by the Secretary of Finance; and, (2) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

On November 22, 2016, the Supreme Court denied, for lack of merit, the Respondents Motion for Leave to File Motion for Partial Reconsideration, as well as the Motion to Admit Motion for Partial Reconsideration, considering that a second motion for reconsideration is a prohibited pleading. The Supreme Court stated that no further pleadings or motions will be entertained and ordered the entry of judgment.

The Parent Bank is coordinating with its external counsel to arrange for the release and payment of the 20% final withholding tax on the PEACe bonds, plus the legal interest of 6% per annum which will accrue from October 19, 2011 until full payment is made.

The Parent Bank presents the 20% FWT amounting to P690 under Accounts receivable account under Loans and Other Receivables in the statements of financial position (see Note 10).

33.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR No. 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 No. 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, 19 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. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 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 No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 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 No. 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 No. 4-2011 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.

The case remains pending as of December 31, 2016.

33.1.3 First e-Bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting Philippine Deposit Insurance Corporation ("PDIC") to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with BDO Unibank, Inc. where in consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, BDO filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

The case remains pending as of December 31, 2016.

33.1.4 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, 2016, 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.

33.2 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 P2,846, P2,569 and P2,199 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P2,670, P2,415 and P2,131 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 23).

As of December 31, 2016 and 2015, the estimated minimum future annual rentals of BDO Unibank, Inc. and Parent Bank follow:

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Within one year	**P 2,528**	P 2,315	**P 2,370**	P 2,176
More than one year but not more than five years	**12,532**	11,337	**11,964**	10,769
More than five years	**4,788**	4,259	**4,604**	4,153
	P 19,848	P 17,911	**P 18,938**	P 17,098

33.3 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, 2016 and 2015, 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	**2016**	2015	**2016**	2015
Trust department accounts	26	**P 1,029,113**	P 917,347	**P 755,863**	P 668,555
Committed credit lines		**221,579**	132,385	**221,399**	132,192
Forward exchange sold		**89,028**	104,736	**67,344**	83,717
Forward exchange bought		**80,419**	94,826	**55,570**	70,788
Unused commercial letters of credit		**48,108**	41,888	**48,092**	41,876
Outstanding guarantees issued		**33,891**	18,916	**33,879**	18,903
Interest rate swap receivable		**19,699**	16,554	**9,791**	9,528
Interest rate swap payable		**19,699**	16,554	**9,791**	9,528
ROP warrants		**15,021**	15,021	**15,021**	15,021
Spot exchange sold		**13,224**	6,738	**12,592**	6,588
Spot exchange bought		**5,182**	3,000	**4,550**	2,849
Bills for collection		**5,090**	5,213	**5,090**	5,213
Late deposits/payments received		**2,584**	2,404	**2,580**	2,372
Export letters of credit confirmed		**1,552**	2,577	**1,552**	2,577
Other contingent accounts		**2,055**	2,194	**2,036**	2,138

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, 2016 and 2015 are shown in the table below.

	BDO Unibank Group	**Parent Bank**	BDO Unibank Group	Parent Bank (Restated)
	December 31, 2016		December 31, 2015	
	(in Millions)		(in Millions)	
Common equity tier 1 capital	**210,641**	**208,770**	192,838	193,105
Additional tier 1 capital	**5,150**	**5,150**	5,150	5,150
Tier 1 capital	**215,791**	**213,920**	197,988	198,255
Tier 2 capital	**24,762**	**24,088**	24,612	23,815
Gross qualifying capital	**240,553**	**238,008**	222,600	222,070
Less: Regulatory adjustments/deductions	**21,937**	**49,633**	22,125	49,341
Total qualifying capital	**218,616**	**188,375**	200,475	172,729
Credit risk-weighted assets	**1,625,249**	**1,513,212**	1,375,819	1,296,059
Market risk-weighted assets	**8,332**	**5,691**	9,830	5,976
Operational risk-weighted assets	**136,009**	**130,458**	117,642	112,544
Risk weighted assets	**1,769,590**	**1,649,361**	1,503,291	1,414,579
Total capital ratio	**12.4%**	**11.4%**	13.3%	12.2%
Tier 1 capital ratio	**11.0%**	**10.0%**	11.7%	10.5%
Common equity tier 1 ratio	**10.7%**	**9.6%**	11.4%	10.2%
Capital conservation buffer	***4.7%***	***3.6%***	***5.4%***	***4.2%***

Capital ratios involving components of regulatory capital are calculated as follows:

Total capital ratio :	Total Qualifying Capital	**218,616**	**188,375**	200,475	172,729
	Risk-Weighted Assets	**1,769,590**	**1,649,361**	1,503,291	1,414,579
Tier 1 capital ratio :	Tier 1 Capital (net of Regulatory Deductions)	**193,854**	**164,287**	175,863	148,914
	Risk-Weighted Assets	**1,769,590**	**1,649,361**	1,503,291	1,414,579
Common equity ratio :	Common Equity Tier 1 (net of Regulatory Deductions)	**188,704**	**159,137**	170,713	143,764
	Risk-Weighted Assets	**1,769,590**	**1,649,361**	1,503,291	1,414,579

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 (Restated)
	December 31, 2016		December 31, 2015	
	(in Millions)		(in Millions)	
Common Equity Tier 1 (CET1) Capital				
Paid-up common stock	**36,500**	**36,500**	36,454	36,454
Additional paid-in capital	**70,127**	**70,107**	69,935	69,915
Retained earnings	**86,118**	**86,117**	68,899	65,839
Undivided profits	**26,090**	**23,916**	21,915	24,994
Net unrealized gains or losses on AFS securities	**(3,923)**	**(3,575)**	(712)	(400)
Cumulative foreign currency translation	**(14)**	**(14)**	(62)	(62)
Actuarial gain/(loss)	**(4,257)**	**(4,281)**	(3,591)	(3,636)
Minority interest in subsidiary banks which are less than wholly-owned	**–**	**–**	–	–
Sub-total	**210,641**	**208,770**	192,838	193,105
Less: Regulatory adjustments/deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**1,295**	**1,295**	1,145	1,145
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**248**	**5,690**	55	6,987
Deferred tax assets	**6,326**	**6,097**	6,071	6,068
Goodwill	**3,046**	**2**	3,015	6
Other intangible assets	**5,296**	**5,158**	4,573	4,456
Defined benefit pension fund assets (liabilities)	**709**	**796**	1,347	1,237
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)	**–**	**25,857**	–	23,607
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)	**608**	**608**	218	218
Other equity investments in non-financial allied undertakings and non-allied undertakings	**4,409**	**4,130**	5,701	5,617
Sub-total	**21,937**	**49,633**	22,125	49,341
Total Common Equity Tier 1 Capital	**188,704**	**159,137**	170,713	143,764
Additional Tier 1 Capital				
Perpetual preferred shares	**5,150**	**5,150**	5,150	5,150
Additional paid-in capital	**–**	**–**	–	–
	5,150	**5,150**	5,150	5,150
Total Tier 1 Capital	**193,854**	**164,287**	175,863	148,914

The components of Tier 2 capital follow:

	BDO Unibank Group	Parent Bank	BDO Unibank Group	Parent Bank (Restated)
	December 31, 2016 (in Millions)		December 31, 2015 (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**	850	850
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	**13,912**	**13,239**	13,762	12,965
	24,762	**24,088**	**24,612**	**23,815**

Below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements for 2016 AND 2015:

	December 31, 2016					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
A.1 Common Equity Tier 1 (CET1) Capital	**209,828**	**813**	**210,641**	**210,328**	**(1,558)**	**208,770**
Paid-up common stock	*36,500*	*–*	*36,500*	*36,500*	*–*	*36,500*
Additional paid-in capital	*69,971*	*155*	*70,127*	*69,971*	*136*	*70,107*
Retained earnings	*85,841*	*277*	*86,118*	*86,059*	*58*	*86,117*
Undivided profits	*24,682*	*1,408*	*26,090*	*24,661*	*(745)*	*23,916*
Other comprehensive income	*(7,166)*	*(1,028)*	*(8,194)*	*(6,863)*	*(1,007)*	*(7,870)*
Net unrealized gains or losses on AFS securities	*(2,765)*	*(1,158)*	*(3,923)*	*(2,438)*	*(1,137)*	*(3,575)*
Cumulative foreign currency translation	*117*	*(131)*	*(14)*	*118*	*(132)*	*(14)*
Actuarial gain/(loss)	*(4,518)*	*261*	*(4,257)*	*(4,543)*	*262*	*(4,281)*
Minority interest in subsidiary banks which are less than wholly-owned	–	–	–	–	–	–

	December 31, 2016					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
A.2 Regulatory adjustments to CET1 capital	**(22,180)**	**243**	**(21,937)**	**(51,532)**	**1,899**	**(49,633)**
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	*(1,295)*	–	*(1,295)*	*(1,295)*	–	*(1,295)*
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	*(248)*	–	*(248)*	*(5,690)*	–	*(5,690)*
Deferred tax assets	*(6,514)*	*188*	*(6,326)*	*(6,165)*	*68*	*(6,097)*
Goodwill	*(3,046)*	–	*(3,046)*	*(2)*	–	*(2)*
Other intangible assets	*(5,296)*	–	*(5,296)*	*(5,158)*	–	*(5,158)*
Defined benefit pension fund assets (liabilities)	*(321)*	*(388)*	*(709)*	*(796)*	–	*(796)*
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)	–	–	–	*(27,616)*	*1,759*	*(25,857)*
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)	*(607)*	–	*(607)*	*(678)*	*70*	*(608)*
Other equity investments in non-financial allied undertakings and non-allied undertakings	*(4,853)*	*443*	*(4,410)*	*(4,132)*	*2*	*(4,130)*
Total Common Equity Tier 1 Capital	**187,648**	**1,056**	**188,704**	**158,796**	**341**	**159,137**
Additional tier 1 capital	***5,150***	–	***5,150***	***5,150***	–	***5,150***
TOTAL TIER 1 CAPITAL	**192,798**	**1,056**	**193,854**	**163,946**	**341**	**164,287**

	December 31, 2016					
	BDO Group			Parent Bank		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
Tier 2 Capital	**24,919**	**(157)**	**24,762**	**24,132**	**(43)**	**24,089**
Instruments issued by the bank that are eligible as Tier 2 capital	*10,000*	–	*10,000*	*10,000*	–	*10,000*
Deposit for subscription of Tier 2 capital	–	–	–	–	–	–
Appraisal increment reserve-bank premises, as authorized by the MB	*850*	–	*850*	*850*	–	*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	*14,069*	*(157)*	*13,912*	*13,282*	*(43)*	*13,239*
TOTAL QUALIFYING CAPITAL	**217,717**	**899**	**218,616**	**188,078**	**298**	**188,376**

**Per summary of adjustments as of December 31, 2016 as submitted to the Bangko Sentral ng Pilipinas*

	December 31, 2015					
	BDO Group			Parent Bank (Restated)		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
A.1 Common Equity Tier 1 (CET1) Capital	**192,646**	**192**	**192,838**	**192,636**	**469**	**193,105**
Paid-up common stock	*36,454*	–	*36,454*	*36,454*	–	*36,454*
Additional paid-in capital	*69,915*	*20*	*69,935*	*69,915*	*1*	*69,916*
Retained earnings	*65,703*	*3,196*	*68,899*	*65,895*	*(56)*	*65,839*
Undivided profits	*25,115*	*(3,200)*	*21,915*	*24,861*	*133*	*24,994*
Other comprehensive income	*(4,541)*	*176*	*(4,365)*	*(4,489)*	*391*	*(4,098)*
Net unrealized gains or losses on AFS securities	*(917)*	*205*	(712)	(809)	*409*	(400)
Cumulative foreign currency translation	*(60)*	*(2)*	(62)	(74)	*12*	(62)
Actuarial gain/(loss)	*(3,564)*	*(27)*	(3,591)	(3,606)	*(30)*	(3,636)
Minority interest in subsidiary banks which are less than wholly-owned	–	–	–	–	–	–

	December 31, 2015					
	BDO Group			Parent Bank (Restated)		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
A.2 Regulatory adjustments to CET1 capital	***(22,164)***	***39***	***(22,125)***	***(49,142)***	***(199)***	***(49,341)***
Total outstanding unsecured credit accommodations both direct and indirect, to DOSRI	*(1,145)*	–	*(1,145)*	*(1,145)*	–	*(1,145)*
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	*(55)*	–	*(55)*	*(6,987)*	–	*(6,987)*
Deferred tax assets	*(6,125)*	*54*	*(6,071)*	*(6,136)*	*68*	*(6,068)*
Goodwill	*(3,013)*	*(1)*	*(3,014)*	*(6)*	–	*(6)*
Other intangible assets	*(4,599)*	*26*	*(4,573)*	*(4,481)*	*25*	*(4,456)*
Defined benefit pension fund assets (liabilities)	*(1,347)*	–	*(1,347)*	*(1,237)*	–	*(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)	–	–	–	*(23,218)*	*(389)*	*(23,607)*
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)*	*(28)*	*(218)*	*(311)*	*93*	*(218)*
Other equity investments in non-financial allied undertakings and non-allied undertakings	*(5,690)*	*(12)*	*(5,702)*	*(5,621)*	*4*	*(5,617)*
Total Common Equity Tier 1 Capital	**170,482**	**231**	**170,713**	**143,494**	**270**	**143,764**
Additional tier 1 capital	**5,150**	–	**5,150**	**5,150**	–	**5,150**
TOTAL TIER 1 CAPITAL	**175,632**	**231**	**175,863**	**148,644**	**270**	**148,914**

	December 31, 2015					
	BDO Group			Parent Bank (Restated)		
	Regulatory Capital	Adjustments	Per AFS	Regulatory Capital	Adjustments*	Per AFS
		(in Millions)			(in Millions)	
Qualifying Capital						
Tier 2 Capital	**24,621**	**(9)**	**24,612**	**23,815**	**–**	**23,815**
Instruments issued by the bank that are eligible as Tier 2 capital	*10,000*	*–*	*10,000*	*10,000*	*–*	*10,000*
Deposit for subscription of Tier 2 capital	*–*	*–*	*–*	*–*	*–*	*–*
Appraisal increment reserve-bank premises, as authorized by the MB	*850*	*–*	*850*	*850*	*–*	*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*	*(9)*	*13,762*	*12,965*	*–*	*12,965*
TOTAL QUALIFYING CAPITAL	**200,253**	**222**	**200,475**	**172,459**	**270**	**172,729**

**Restated adjustments as of December 31, 2015 using equity method in the Parent Bank.*

Comparative risk-weighted assets by type of exposure as of December 31, 2016 and 2015 consist of the following:

	Credit Risk*		Market Risk**		Operational Risk	
	December 31, 2016					
	Group	Parent	Group	Parent	Group	Parent
			(in Millions)			
On-Balance Sheet	1,583,736	1,476,516				
Off-Balance Sheet	34,191	34,143				
Counterparty (Banking/ Trading Book)	7,322	2,553				
Credit-Linked Notes in the Banking Book	–	–				
Securitization Exposures	–	–				
Deductions	–	–				
Interest Rate Exposures			4,413	1,786		
Equity Exposures			292	–		
Foreign Exchange Exposures			3,627	3,904		
Options			–	–		
Basic Indicator					136,009	130,458
Total	1,625,249	1,513,212	8,332	5,691	136,009	130,458
Capital Requirements	162,525	151,321	833	569	13,601	13,046

** 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 2016 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly, using 5 years historical data of yearly changes at the 99% confidence level.*

ON-BALANCE SHEET ASSETS

	BDO Unibank Group								
			Risk Weights						
Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	44,015	44,015	44,015						44,015
Checks and Other Cash Items	231	231		231					231
Due from Bangko Sentral ng Pilipinas	318,002	318,002	318,002						318,002
Due from Other Banks	41,794	41,794		2,281	36,113		3,400		41,794
Financial Assets Designated at Fair Value through Profit or Loss	4,193	4,193	197	32	329		3,635		4,193
Available for Sale Securities	107,919	107,917	13,155	2,766	40,579		51,417		107,917
Held-to-Maturity (HTM) Securities	146,886	136,260	43,644		62,376		30,240		136,260
Unquoted Debt Securities Classified as Loans	22,376	22,338			22,338				22,338
Loans and Receivables	1,544,863	1,463,350		84,698	83,224	55,078	1,235,423	4,927	1,463,351
Loans and Receivables Arising from Repurchase Agreements	14,302	14,302	14,302						14,302
Sales Contract Receivable	1,452	1,428					1,060	368	1,428
Real and Other Properties Acquired	7,426	7,426						7,426	7,426
Other Assets	54,135	54,135					54,135		54,135
Total Exposures	2,307,594	2,215,391	433,315	90,008	244,959	55,078	1,379,310	12,721	2,215,391
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	18,002	122,480	41,309	1,379,310	19,082	1,580,181
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	4	84	-	3,467	-	3,555
Total Risk-weighted On-Balance Sheet Assets			-	18,006	122,564	41,309	1,382,777	19,082	1,583,736

OFF-BALANCE SHEET ASSETS

		Risk Weights						
Type of Exposures	Credit Equivalent (in millions)	0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	49					49		49
Transaction-related contingencies	23,083		54			22,814		22,868
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	11,277					11,274		11,274
	34,409	-	54	-	-	34,137	-	34,191

ON-BALANCE SHEET ASSETS

	Parent Bank								
			Risk Weights						
Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	42,950	42,950	42,950						42,950
Checks and Other Cash Items	200	200		200					200
Due from Bangko Sentral ng Pilipinas	304,285	304,285	304,285						304,285
Due from Other Banks	33,463	33,463		1,318	32,075		70		33,463
Financial Assets Designated at Fair Value through Profit or Loss	-	-							-
Available for Sale Securities	62,430	62,427		152	31,133		31,142		62,427
Held-to-Maturity (HTM) Securities	140,951	130,325	38,306		61,779		30,240		130,325
Unquoted Debt Securities Classified as Loans	22,376	22,338			22,338				22,338
Loans and Receivables	1,488,980	1,407,827		83,968	82,831	49,187	1,187,760	4,081	1,407,827
Loans and Receivables Arising from Repurchase Agreements	7,891	7,891	7,891						7,891
Sales Contract Receivable	1,342	1,318					984	334	1,318
Real and Other Properties Acquired	7,206	7,206						7,206	7,206
Other Assets	36,321	36,321					36,321		36,321
Total Exposures	2,148,395	2,056,551	393,432	85,638	230,156	49,187	1,286,517	11,621	2,056,551
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			-	17,128	115,078	36,890	1,286,517	17,432	1,473,045
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	4	-	-	3,467	-	3,471
Total Risk-weighted On-Balance Sheet Assets			-	17,132	115,078	36,890	1,289,984	17,432	1,476,516

OFF-BALANCE SHEET ASSETS

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	36					36		36
Transaction-related contingencies	23,083		54			22,815		22,869
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	11,238					11,238		11,238
	34,357	–	54	–	–	34,089	–	34,143

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, 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	–		
Foreign Exchange Exposures			3,459	3,611		
Options						
Basic Indicator					117,642	112,544
Total	1,375,819	1,296,059	9,830	5,976	117,642	112,544
Capital Requirements	137,582	129,606	983	598	11,764	11,254

** 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 2015 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly, using 5 years historical data of yearly changes at the 99% confidence level.*

****General loan loss provision (in excess of the amount permitted to be included in Tier 2).*

ON-BALANCE SHEET ASSETS

	BDO Unibank Group								
			Risk Weights						
Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	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
Held-to-Maturity (HTM) Securities									-
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			-	12,658	89,290	39,314	1,186,635	17,468	1,345,364
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			-	2	128	-	3,484	-	3,614
Total Risk-weighted On-Balance Sheet Assets			-	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	–	25	10	–	20,485	–	20,520

ON-BALANCE SHEET ASSETS

Parent Bank (Restated)

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	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	–	–							–
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			–	12,004	86,971	31,145	1,122,974	17,091	1,270,185
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			–	2	–	–	3,484	–	3,486
Total Risk-weighted On-Balance Sheet Assets			–	12,006	86,971	31,145	1,126,458	17,091	1,273,671

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	-	25	10	-	20,434	-	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.

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