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The materials relating to the offering of securities to which this offering circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Lead Arranger or any affiliate of the Lead Arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Lead Arranger or such affiliate on behalf of the Issuer (as defined in this offering circular) in such jurisdiction.

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OFFERING CIRCULAR

BDO Unibank, Inc.

(Incorporated with limited liability in the Republic of the Philippines)

US$2,000,000,000

Medium Term Note Programme

Under this US$2,000,000,000 Medium Term Note Programme (the **Programme**), BDO Unibank, Inc. (the **Issuer** or the **Bank**), acting through its principal office in the Philippines, Hong Kong Branch or other foreign branch, as the case may be, may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Notes.

Application has been made to the Singapore Exchange Securities Trading Limited (**SGX-ST**) for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST (the **Official List**). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List and quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See "*Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear Bank SA/NV (Euroclear) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**).

Each Tranche of Notes of each series (as defined in "*Form of the Notes*") to be issued in bearer form (**Notes**, comprising a **Series**) will initially be represented by either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, the **Bearer Global Notes**, and each a **Bearer Global Note**) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

On and after the date (the **Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) definitive bearer Notes of the same Series.

Registered Notes will initially be represented by a global note in registered form, without receipts or coupons, (a **Registered Global Note**) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of such common depositary.

The applicable Pricing Supplement will specify that definitive Notes will be made available in certain limited circumstances.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or with any U.S. securities laws and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. See "*Subscription and Sale*".

Lead Arranger

Standard Chartered Bank

Dealers

ANZ	**Barclays**	**Citigroup**	**Daiwa**	**Deutsche Bank**
Goldman Sachs	**HSBC**	**ING**	**J.P. Morgan**	**Mizuho Securities**
	Nomura	**Standard Chartered Bank**	**UBS**	

The date of this Offering Circular is 14 October 2016.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the Programme and the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

To the fullest extent permitted by law, none of the Dealers or the Lead Arranger accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Lead Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Lead Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation other than those contained in this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Issuer, the Lead Arranger (as defined herein) or the Dealers or the Trustee.

Neither the Lead Arranger, the Dealers nor the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Lead Arranger, the Dealers, the Trustee or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Lead Arranger, the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Lead Arranger, the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Lead Arranger, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Lead Arranger, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, any of the Lead Arranger, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction

where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and the Netherlands), Japan, Singapore, Hong Kong, the Philippines and the People's Republic of China, see "*Subscription and Sale*". If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Lead Arranger or any affiliate of the Lead Arranger is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Lead Arranger or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer, the Lead Arranger, the Dealers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

There are restrictions on the offer and sale of the Notes in the United Kingdom. All applicable provisions of the Financial Services and Market Act 2000, as amended (including by the Financial Services Act 2012 (**FSA**)) (**FSMA**) with respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom must be complied with. See "*Subscription and Sale*".

In connection with the offering of any Series of Notes, each Dealer is acting or will act for the Issuer in connection with the offering and no one else and will not be responsible to anyone other than the Issuer for providing the protections afforded to clients of that Dealer nor for providing advice in relation to any such offering.

For a description of other restrictions, see "*Subscription and Sale*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank and its consolidated subsidiaries (the **Group**) and the Bank's audited financial statements as of and for the years ended 31 December 2013, 2014, and 2015, and the unaudited interim condensed financial statements as of 30 June 2016 and for the six months ended 30 June 2015 and 2016 included in this Offering Circular have been prepared in accordance with Philippine Financial Reporting Standards (**PFRS**) and Philippine Accounting Standard 34, Interim Financial Reporting, respectively. PFRS is substantially based on International Financial Reporting Standards. The Group's and the Bank's financial statements as of and for the years ended 31 December 2013, 2014, and 2015 were audited by Punongbayan & Araullo (**P&A**), independent auditors, in accordance with Philippine Standards on Auditing. The Group's and the Bank's unaudited interim condensed financial statements as of 30 June 2015 and for the six months ended 30 June 2015 and 2016 included in this Offering Circular have been reviewed by P&A in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

CERTAIN DEFINITIONS

Unless the context clearly indicates otherwise, any reference to the **Bank** refers to BDO Unibank, Inc. on an unconsolidated basis. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that, as of the date of this Offering Circular, the information contained in this Offering Circular relating solely to the Bank, its operations and those of its subsidiaries and associates is true and that there is no material misstatement or omission of fact which would make any statement in this Offering Circular misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular with respect to the same. Unless otherwise indicated, all information in this Offering Circular is as of the date of this Offering Circular. Neither the delivery of this Offering Circular nor any sale made pursuant to this Offering Circular shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither the Lead Arranger nor the Dealers assume any liability for information supplied by the Bank in relation to this Offering Circular.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the **Philippines** are references to the Republic of the Philippines. All references to the **Government** herein are references to the Government of the Republic of the Philippines. All references to the **BSP** herein are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to **United States** or **U.S.** herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to **Peso** and **₱** herein are to the lawful currency of the Philippines and all references to **U.S. Dollars** or **US$** herein are to the lawful currency of the United States. All references to the **PRC** herein are references to the People's Republic of China. All references to **Renminbi**, **RMB** and **CNY** herein are to the lawful currency of the PRC. In addition, all references to **Macau** herein are to the Macau Special Administrative Region of the PRC, all references to **Mainland China** herein are to the PRC excluding Hong Kong and Macau and all references to **Greater China** are to the PRC including Hong Kong and Macau. Unless the context indicates otherwise, references to a particular **fiscal** year are to the Bank's financial year ended 31 December of such year.

This Offering Circular contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, Philippine Peso/U.S. Dollar exchange rates referred to in this Offering Circular are weighted average rates for the indicated period or on the applicable date, as relevant, for the purchase of U.S. dollars with Pesos published in the Reference Exchange Rate Bulletin by the BSP (the **BSP Rate**). No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components. On 14 October 2016, the BSP Rate was ₱48.473 = US$1.00.

ENFORCEABILITY OF CIVIL LIABILITIES

The Bank is organised under the laws of the Philippines. Substantially all of the directors and executive officers of the Bank are residents of the Philippines and a substantial portion of the assets of the Bank and the assets of such persons are located in the Philippines. As a result, it may not be possible for investors to effect service of process upon the Bank, or such directors and executive officers outside the Philippines, or to enforce judgments obtained against them outside the Philippines predicated upon civil liabilities of the Bank or such directors and executive officers under laws other than Philippine law.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Moreover, the Philippines enacted Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, to facilitate the enforcement of arbitral awards in the Philippines. The enforceability of foreign judgments in the Philippines is specifically provided for in the 1997 Rules of Civil Procedure. Section 48 of Rule 39 of the Rules of Civil Procedure provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order: (a) in case of a judgment or final order upon specific property, is conclusive upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. In either case, the judgment or final order may be repelled if there is a defect relating to jurisdiction or notice to the other party, collusion, fraud or clear mistake of law or fact. In addition, Article 17 of the Civil Code of the Philippines provides that the judgment must not be contrary to laws that have for their object public order, public policy and good customs in the Philippines. Furthermore, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

FORWARD-LOOKING STATEMENTS

The Issuer has included statements in this Offering Circular which contain words or phrases such as "will", "would", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "seeking to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Issuer with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Issuer, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Offering Circular include, but are not limited to general economic and political conditions in the Philippines, southeast Asia, and the other countries which have an impact on the Issuer's business activities or investments, political or financial instability in the Philippines or any other country caused by any factor including any terrorist attacks in the Philippines, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of the Philippines, political or financial instability in the Philippines or any other country or social unrest in any part of the Philippines, inflation, deflation, unanticipated turbulence in interest rates, changes in the value of the Peso, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in the Philippines and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in the Philippines and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in this Offering Circular.

CONTENTS

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Issuer, (see "*General Information*" for a description of the financial statements currently published by the Issuer); and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the principal office of the principal paying agent in London (which for the time being is The Bank of New York Mellon, London Branch (the **Principal Paying Agent**) for the Notes listed on the SGX-ST).

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined by the Principal Paying Agent, as of the date on which agreement is reached for the issue of Notes on the basis of the spot rate for the sale of the U.S. dollar against the purchase of that Specified Currency in the London foreign exchange market quoted by leading international bank selected by the Principal Paying Agent on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the nominal amount of those Notes.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuer	BDO Unibank, Inc., acting through its principal office in the Philippines, Hong Kong Branch or other foreign branch (as specified in the relevant Pricing Supplement)
Description	Medium Term Note Programme
Lead Arranger...	Standard Chartered Bank
Dealers...	Australia and New Zealand Banking Group Limited, Barclays Bank PLC, Citigroup Global Markets Limited, Daiwa Capital Markets Singapore Limited, Deutsche Bank AG, Singapore Branch, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Nomura International plc, Standard Chartered Bank, UBS AG, Hong Kong Branch and any other Dealers appointed in accordance with the Programme Agreement (as defined under "*Subscription and Sale*").
Certain Restrictions	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Trustee	The Bank of New York Mellon, London Branch
Principal Paying Agent...........................	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent..................	The Bank of New York Mellon (Luxembourg) S.A.
Programme Size......................................	U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Investment Considerations......................	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes issued under the Programme. These are set out under "*Investment Considerations*" below. In addition, there are

certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Investment Considerations*" and include certain risks relating to the structure of particular Series of Notes and certain market risks.

Distribution.. Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies.. Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

Maturities... Such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price.. Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes.. The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes .... Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes .... Floating Rate Notes will bear interest at a rate determined:

(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); or

(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes .... Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in Floating Rate Notes and Index Linked Interest Notes.............	Floating Rate Notes and Index Linked Interest Notes may also have a relation to maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes.................................	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Other Notes..	The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
Redemption..	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation and regulatory reasons; or (iii) following an Event of Default (as defined in Condition 10.1) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.
Denomination of Notes...........................	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.
Taxation..	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8.2), subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge......................................	The terms of the Notes will contain a negative pledge provision as further

	described in Condition 4.
Cross Default	The terms of the Notes will contain a cross default provision as further described in Condition 10.1(c).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Listing	Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, Notes which are listed on the SGX-ST will be traded with a minimum board lot size of at least S$200,000 or its equivalent in foreign currencies.
	Unlisted Notes may also be issued.
	The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Clearing System	Euroclear, Clearstream, Luxembourg and/or any other clearing system, as specified in the applicable Pricing Supplement (see "*Form of Notes*").
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and the Netherlands), Japan, Hong Kong, Singapore, the Philippines, the People's Republic of China and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*").
United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series will either be in bearer form, with or without interest coupons (**Coupons**) attached (**Bearer Notes**), or registered form, without interest coupons attached (**Registered Notes**). The Notes will be issued outside the United States in reliance on Regulation S.

Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear and Clearstream, Luxembourg.

Bearer Notes

Each Tranche of Bearer Notes will initially be represented by either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, the **Bearer Global Notes**, and each a Bearer Global Note) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note.

On and after the date (the **Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) Definitive Bearer Notes (**Definitive Bearer Notes**) of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for Definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10.1) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form and a certificate to such effect from an authorised officer of the Issuer has been given to the Trustee. The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, the Trustee may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange following an Exchange Event shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form (**Definitive Registered Notes**).

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar (each as defined under "*Terms and Conditions of the Notes*") will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Notes will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event (as defined under "*Form of the Notes*").

The Issuer will promptly give notice to the Noteholders and the Trustee in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) of the definition of Exchange Event under "*Form of the Notes*", the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

General

All Notes will be issued pursuant to the Trust Deed and the Agency Agreement (each as defined under "*Terms and Conditions of the Notes*").

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN number which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note or a Registered Global Note (each a **Global Note**) held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear and/or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Trustee, the Issuer and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the Trust Deed and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Trustee and the Principal Paying Agent.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Note representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

No Noteholder, Receiptholder or Couponholder (each as defined in "*Terms and Conditions of the Notes*") shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6, 7 (except Condition 7.2), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

BDO Unibank, Inc.
acting through its [principal office in the Philippines][Hong Kong Branch]*[specify other foreign branch]*

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$2,000,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [ ] and any documents therein incorporated by reference (collectively, the **Offering Circular**). This Pricing Supplement comprises the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated [current date] and are attached hereto. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated *[current date*].]

[Include whichever of the following apply or specify as "*Not Applicable*" *(N/A). Note that the numbering should remain as set out below, even if* "*Not Applicable*" *is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement]*

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer:	BDO Unibank, Inc., acting through its [principal office in the Philippines][Hong Kong Branch] [*specify other foreign branch*]
2. (a) Series Number:	[ ]
(b) Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
(c) Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 28 below, which is expected to occur on or about [*date*]][Not Applicable]

3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	(a) Series:	[ ]
	(b) Tranche:	[ ]
5.	(a) Issue Price:	[ ]% of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	(b) Net proceeds: (*only for listed notes*)	[ ]
6.	(a) Specified Denominations:	[ ] *(N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of whole sale securities and in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)* *(Note — where Bearer Notes with multiple denominations above [€100,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")* *(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)* *(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)*
	(b) Calculation Amount:	[ ] *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7.	(a) Issue Date:	[ ]

	(b) Interest Commencement Date:	[*specify/Issue Date/Not Applicable*] *(N.B. An Interest Commencement Date will not be relevant of certain Notes, for example Zero Coupon Notes.)*
8.	Maturity Date:	[*Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year*]][(1)]
9.	Interest Basis:	[[ ]% Fixed Rate] [[*specify* Reference *Rate*] +/- [ ]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/ Payment Basis:	[Applicable/Not Applicable] *(If applicable, specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis)*
12.	Put/Call Options:	[Investor Put] [Issuer Call]
13.	Status of the Notes:	Senior
14.	(a) Date Board approval for issuance of Notes obtained:	[ ] [and [ ], respectively]]/[None required] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes.)*
	(b) Date regulatory approval/consent for issuance of Notes obtained:	[ ]/[None required] *(N.B. Only relevant where regulatory (or similar) approval or consent is required for the particular Tranche of Notes.)*
15.	Listing:	[Singapore/specify other/None] *(N.B. Consider disclosure requirements under the EU Prospectus Directive applicable to securities admitted to an EU regulated market)*

(1) Note that for Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

16.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a) Rate(s) of Interest:	[ ]% per annum [payable in arrear] on each Interest Payment Date
	(b) Interest Payment Date(s):	[ ] in each year[(2)] up to and including the Maturity Date] *(Amend appropriately in the case of irregular coupons)*
	(c) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount[(3)]
	(d) Broken Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e) Day Count Fraction:	[Actual/Actual (ICMA) 30/360 Actual/365 (Fixed)[(4)] Other]
	(f) Determination Date(s):	[[ ] in each year] [Not Applicable] [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*] *(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)* *(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
	(g) Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent):	[ ]
	(h) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]

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(2) Note that for certain Hong Kong dollar and Renminbi denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [ ].".

(3) For Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest [HK$0.01, HK$0.005/ CNY0.01, CNY0.005] being rounded upwards."

(4) Applicable to Hong Kong dollar and Renminbi denominated Fixed Rate Notes.

18.	Floating Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [*specify other*]]
(c)	Additional Business Centre(s):	[ ]
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[ ]
(f)	Screen Rate Determination:	[ ]
	• Reference Rate and Relevant Financial Centre:	Reference Rate: [ ] month [LIBOR/ EURIBOR/*specify other Reference Rate*]. Relevant Financial Centre: [London/Brussels/ *specify other Relevant Financial Centre*]
	• Interest Determination Date(s):	[ ] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	• Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] *(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
(h)	Margin(s):	[+/-][ ]% per annum
(i)	Minimum Rate of Interest:	[ ]% per annum

	(j)	Maximum Rate of Interest:	[ ]% per annum
	(k)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] (See Condition 5 for alternatives)
	(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
19.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ]% per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]
20.	Index x Linked Interest Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
	(c)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(e)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ *specify other*]

(f)	Additional Business Centre(s):	[ ]
(g)	Minimum Rate of Interest:	[ ]% per annum
(h)	Maximum Rate of Interest:	[ ]% per annum
(i)	Day Count Fraction:	[ ]

21. Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
(b)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[ ]
(c)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

22. Notice periods for Condition 7.2: Minimum period: [ ] days
Maximum period: [ ] days

23. Issuer Call: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a)	Optional Redemption Date(s):	[ ]
(b)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*]
(c)	If redeemable in part:	
	(i) Minimum Redemption Amount:	[ ] per Calculation Amount
	(ii) Maximum Redemption Amount:	[ ] per Calculation Amount
(d)	Notice periods:	Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other*

			notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)
24.	Investor Put:		[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*]
	(c)	Notice periods:	Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or the Trustee)*
25.	Final Redemption Amount of each Note:		[ ] per Calculation Amount/specify other/ see Appendix]
26.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):		[ ] per Calculation Amount/*specify other*/ see Appendix]
27.	Applicable Spread:		[[ ]% per annum]/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

28.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 60 days' notice given at any time/only upon an Exchange Event]] *(Ensure that this is consistent with the wording in the "Form of the Notes " section in the Offering Circular and the Notes themselves. The exchange upon notice option should not be expressed to be applicable if the*

		Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes.)* [Registered Notes: Registered Global Note ([ ] nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg (*specify nominal amounts*)]
29.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 18(c) and 20(f) relate)*
30.	Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
31.	Details relating to Party Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details. N.B. a new form of Temporary Bearer Global Note and/or Permanent Bearer Global Note may be required for Partly Paid issues*]
32.	Details relating to Instalment Notes:	
	(a) [Instalment Amount(s):	[Not Applicable/*give details*]]
	(b) [Instalment Date(s):	[Not Applicable/*give details*]]
33.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

34.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager(s) (if any):	[Not Applicable/*give name(s)*]
35.	If non-syndicated, name of relevant Dealer:	[ ]
36.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[Reg. S Category 1/2]; [TEFRA D/TEFRA C/TEFRA not applicable]
37.	Additional selling restrictions:	[Not Applicable/*give details*]
38.	Additional U.S. federal income tax considerations:	[Not Applicable/*give details*] [*To consider whether any considerations relating to*

		the U.S. Foreign Account Tax Compliance Act need to be included]

OPERATIONAL INFORMATION

39.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
40.	Delivery:	Delivery [against/free of] payment
41.	Deemed delivery of clearing system notices for the purposes of Condition 14:	Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.
42.	Additional Paying Agent(s) (if any):	[ ]
ISIN		[ ]
Common Code:		[ ]

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US$2,000,000,000 Medium Term Note Programme of BDO Unibank, Inc., acting through its [principal office in the Philippines][Hong Kong Branch][specify other foreign branch].]

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

The Issuer represents and warrants that except as disclosed in this Pricing Supplement, there has been no significant change in the financial or trading position of the Issuer since *[date of most recently audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer since *[date of most recently published annual accounts]*.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: ....
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and not so agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by BDO Unibank, Inc. (the **Issuer**), acting through its principal office in the Philippines, Hong Kong Branch or other foreign branch of the Issuer outside the Republic of the Philippines (the **Philippines**), as specified in the applicable Pricing Supplement, and constituted by a trust deed dated 7 December 2012 (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) made between the Issuer and The Bank of New York Mellon, London Branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the currency specified therein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);

(ii) any Global Note in bearer form (a **Bearer Global Note**);

(iii) any Global Note in registered form (a **Registered Global Note**);

(iv) definitive Notes in bearer form (**Definitive Bearer Notes**, and together with Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Bearer Global Note; and

(v) definitive Notes in registered form (**Definitive Registered Notes**, and together with Registered Global Notes, the **Registered Notes**), whether or not issued in exchange for a Registered Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement dated 7 December 2012 (such agency agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and any additional paying agents appointed in accordance with the Agency Agreement (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and as transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents appointed in accordance with the Agency Agreement) and The Bank of New York Mellon (Luxembourg) S.A. as registrar (the **Registrar**, which expression shall include any successor registrar and, together with the Paying Agents and Transfer Agents, the **Agents**).

Interest bearing Definitive Bearer Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions (**Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders, in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, (unless this is a Zero Coupon Note) Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being One Canada Square, London E14 5AL, United Kingdom) and at the specified office of each of the Principal Paying Agent and the other Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes may be in bearer form and/or in registered form and, in the case of definitive Notes, will be serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Pricing Supplement. Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the

Registrar and the Transfer Agent will (except as otherwise ordered by a court of competent jurisdiction or required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held by a common depositary on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream, Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and the Transfer Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer or registered holder of the relevant Global Note shall be treated by the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes, as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Trustee and the Principal Paying Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Notes in definitive form only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Registered Notes Generally

Registered Notes may not be exchanged for Bearer Notes and *vice versa.*

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer: (i) the holder or holders must (a) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer, the Trustee, the Registrar, or as the case may be, the relevant Transfer Agent may prescribe (such initial regulations being set out in Schedule 4 to the Agency Agreement), which may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 7.3, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, that is called for partial redemption.

2.4 Costs of Registration

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Philippines unless the Issuer is the counterparty directly liable for that documentary stamp tax.

2.5 Closed Periods

No Noteholder may require the transfer of a Definitive Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Note.

The Issuer shall not be required in the event of a partial redemption of Notes under Condition 7:

(a) to register the transfer of Definitive Registered Notes (or parts of such Notes) during the period beginning on the 65th day before the date of the partial redemption and ending on the day on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or

(b) to register the transfer of any Definitive Registered Note, or part of a Definitive Registered Note, called for redemption.

3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Under Philippine law unsecured debt (including guarantees of debt) of a borrower in insolvency or liquidation that is documented by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, ranks ahead of unsecured debt that is not so documented. Debt is treated as documented by a public instrument if it is acknowledged before a notary or any person authorised to administer oaths in the Philippines. The Issuer's debt which is documented by a public instrument will rank ahead of the Notes in the event the Issuer is unable to service its debt obligations.

The Issuer will, in connection with the issuance of the Notes, represent that it has not prepared, executed or filed any public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines, relating to any Relevant Debt (as defined below), or consented to the preparation or filing of any such public instrument. The

Issuer also will agree that it will not create or permit to subsist any preference or priority in respect of any Relevant Debt pursuant to Article 2244(14) of the Civil Code of the Philippines unless it grants equal and ratable preference or priority to amounts payable under the Notes.

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed):

(i) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt; and

(ii) the Issuer will procure that no other person creates or permits to subsist any Security upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (x) any of the Issuer's Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Debt, or (y) where the person in question is a Subsidiary (as defined in the Trust Deed) of the Issuer, any of the Relevant Debt of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Relevant Debt, unless, at the same time or prior thereto, the Issuer's obligations under the Notes (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as, *inter alia*, a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Notes; and

(iii) the Issuer will not create or permit to subsist any preference or priority in respect of any other Relevant Debt of the Issuer pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Relevant Debt, unless amounts payable under the outstanding Notes are granted preference or priority equally and ratably therewith.

For the purposes of these Conditions, **Relevant Debt** means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities (**Indebtedness**) having an original maturity of more than one year from its date of issue and which are for the time being (or in the case of Conditions 4(i) and (ii) only are capable of being) quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, provided that in the case of Condition 4(iii) Relevant Debt shall exclude (a) Indebtedness denominated, payable or optionally payable in Philippine Pesos and (b) if denominated, payable or optionally payable in U.S. dollars, Indebtedness in an aggregate principal amount not exceeding 5% of the consolidated total assets as shown in the latest audited balance sheet of the Issuer.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if **Actual/Actual (ICMA)** is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(b) if **30/360** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or

(c) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) ***Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is as the day specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as of 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(c) ***Minimum and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and Calculation of Interest Amounts***

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if **Actual/365 (Sterling)** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if **Actual/360** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{\lfloor 360 \times (Y_2 - Y_1) \rfloor + \lfloor 30 \times (M_2 - M_1) \rfloor + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

$\mathbf{D_2}$ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if **30E/360** or **Eurobond Basis** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{\lfloor 360 \times (Y_2 - Y_1) \rfloor + \lfloor 30 \times (M_2 - M_1) \rfloor + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

$\mathbf{D_2}$ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if **30E/360 (ISDA)** is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$_{\mathbf{M2}}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

$\mathbf{D^2}$ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or

(viii) such number would be 31, in which case D2 will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(f) ***Determination or Calculation by Trustee***

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall (or shall, at the expense of the Issuer, appoint an agent to) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(g) ***Certificates to be Final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee (or its agent), shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents, the Transfer Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent, the Registrar, the other Paying Agents, the Transfer Agents or the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) as provided in the Trust Deed.

5.6 Definitions

In these Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of

(B) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(C) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(D) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(E) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system (the **TARGET2 System**) is open; or (iii) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong.

6. PAYMENTS

6.1 Method of Payment

Subject as provided below:

(a) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque; and

(c) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.2 Presentation of Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principals (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

6.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong) maintained by a holder with a Designated Bank and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively), (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the Business Day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and on the fifteenth day (in the case of a currency other than Renminbi) (whether or not such fifth day or fifteenth day is a Business Day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer, the Trustee, the Registrar, any Transfer Agent or any Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General Provisions Applicable to Payments

The holder of a Global Note (or as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer in respect of such Global Note to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of the Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States only if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation; and

(ii) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively; (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; or (C) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6.7 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

Subject to Condition 7.5, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Pricing Supplement to the Trustee, the Registrar (if applicable) and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes for such Series; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (1) a certificate signed by an authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment; and the Trustee shall be entitled without further action or enquiry to accept the certificate and the opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the certificate shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if any) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Noteholders in accordance with Condition 14, (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed (**Redeemed Notes**) will be selected in such place as the Trustee may approve and in such manner as it deems fit, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (as appropriate), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, the Issuer will ensure that a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption of the Notes at the Option of the Noteholders (Investor Put)

(a) ***If Investor Put is specified as being applicable in the applicable Pricing Supplement***

If Investor Put is specified as being applicable in the applicable Pricing Supplement with respect to the Notes, upon the holder of any Notes giving to the Issuer in accordance with Condition 14 not less than the minimum period of notice nor more than the maximum period of notice specified in the applicable Pricing Supplement (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(b) ***Put Option Exercise Procedures***

To exercise the right to require redemption of a Note the holder of the Note must:

(i) if the Note is in definitive form, deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a **Put Notice**) accompanied by the definitive Note, to the specified office of any Paying Agent in the case of Bearer Notes, or of any Transfer Agent or the Registrar in the case of Registered Notes; or

(ii) if the Note is represented by a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, give a Put Notice in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg (which may include notice being given on his instruction by electronic means) accompanied by the relevant Global Note for notation accordingly to the specified office of any Paying Agent, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition, and in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2. If the Note is in definitive bearer form, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

7.5 Early Redemption Amounts

For the purpose of Conditions 7.2 and 7.4 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP x (1 + AY)y

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5 above.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.8 Purchases

Subject to applicable laws, the Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer surrendered to any Paying Agent and/or the Registrar for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and may not be reissued or resold.

7.10 Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

8.1 Payment without Withholding

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Notes, Receipts and Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any Tax Jurisdiction, unless such withholding or deduction is required by law. Where such withholding or deduction is made by the Issuer at the rate of up to and including 20% the Issuer will increase the amounts paid by it to the extent required, so that the net amount received by the holders of the Notes, Receipts or Coupons equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required. In the event that the Issuer makes a deduction or withholding required by law in excess of 20% the Issuer shall pay such additional amounts (the **Additional Amounts**) as will result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note, Receipt or Coupon:

(a) **Other connection**: to or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(b) **Surrender more than 30 days after the Relevant Date**: presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Note, Receipt or Coupon for payment on the last day of such period of 30 days assuming that day to have been a Payment Day (as defined in Condition 6.6).

8.2 Interpretation

As used herein:

(i) **Tax Jurisdiction** means:

(A) the Philippines or any political subdivision or any authority thereof or therein having power to tax; or

(B) where the Issuer is acting through its Hong Kong Branch, (x) the Philippines or any political subdivision or any authority thereof or therein having power to tax and (y) Hong Kong or any political subdivision or any authority thereof or therein having power to tax; or

(C) where the Issuer is acting through any other branch outside the Philippines as specified in the applicable Pricing Supplement, (x) the Philippines or any political subdivision or any authority thereof or therein having power to tax and (y) the tax jurisdiction applicable to such branch or any political subdivision or any authority thereof or therein having power to tax; and

(ii) **Relevant Date** in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders in accordance with Condition 14 that, upon further surrender of the relevant Note, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8.2) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified, secured and/or prefunded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed:

(a) **Non-Payment**: there is failure to pay the principal or interest on any of the Notes when due and, in the case of failure to pay interest, such failure continues for a period of fourteen days; or

(b) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of, or compliance with, any one or more of its other obligations under the Conditions or the Trust Deed, which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount the relevant indebtedness, guarantees and indemnities in respect of one or more events mentioned above in this subparagraph (c) exceeds U.S.$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Judgment, Decree or Order**: a final judgment, decree or order has been entered against the Issuer or any Subsidiary of the Issuer by a court of competent jurisdiction from which no appeal may be made or is taken for the payment of money in excess of U.S.$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates) and any relevant period specified for payment of such judgment, decree or order shall have expired without it being satisfied, discharged or stayed; or

(e) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any Subsidiary of the Issuer and is not discharged or stayed within 60 days of having been so levied, enforced or sued; or

(f) **Security Enforced**: any Security, present or future, created or assumed by the Issuer or any Subsidiary of the Issuer becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and the indebtedness secured by the Security is not discharged or such steps stayed within 60 days of such steps being so taken; or

(g) **Insolvency**: the Issuer or any Subsidiary of the Issuer (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Subsidiary of the Issuer; or

(h) **Winding-up**: an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Subsidiary of the Issuer, or the Issuer or any Subsidiary of the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by (i) a reconstruction, amalgamation, reorganisation, merger or consolidation (x) on terms approved by a resolution of the Noteholders, or (y) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary pursuant to a merger of the Subsidiary with the Issuer or such other Subsidiary or by way of a voluntary winding-up or dissolution where there are surplus assets in such Subsidiary and such surplus assets attributable to the Issuer and/or any other Subsidiary are distributed to the Issuer and/or any such other Subsidiary or (ii) a merger or consolidation with respect to the Issuer which is not materially prejudicial to the interests of the Noteholders; or

(i) **Bankruptcy Proceedings**: proceedings shall have been initiated against the Issuer or any Subsidiary of the Issuer under any applicable bankruptcy, insolvency, reorganisation law and such proceedings shall not have been discharged or stayed within a period of 60 days; or

(j) **Validity**: the Issuer shall contest in writing the validity or enforceability of any of the Notes or shall deny generally in writing the liability of the Issuer, under any of the Notes; or

(k) **Analogous Events**: any event occurs, which, under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.1.

The Issuer has undertaken in the Trust Deed that, so long as any Note remains outstanding, annually and also within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by a Director to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default or event or circumstance that could with the giving of notice, lapse of time and/or issue of a certificate become an Event of Default has occurred.

10.2 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified, secured and/or prefunded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

10.3 Interpretation

In these Conditions:

(a) **Winding-Up** shall mean, with respect to the Issuer, a final, unappealable and executory order or resolution of any court or agency or supervisory authority in the Philippines for the bankruptcy, suspension of payment, rehabilitation, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer (except for the purposes of a consolidation, amalgamation, merger or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders); and

(b) **Winding-Up Proceedings** shall mean, with respect to the Issuer, (a) a proceedings shall have been instituted or a decree or order shall have been entered in any court or agency or supervisory authority in the Philippines having jurisdiction in respect of the same for the appointment of a receiver or liquidator in any insolvency, rehabilitation, suspension of payments, readjustment of debt, marshalling of assets and liabilities, or similar arrangements involving the Issuer or all or substantially all of its property, or for the winding up of or liquidation of its affairs and such proceeding, decree or order shall not have been vacated; or (b) the Issuer shall file a petition to take advantage of any insolvency or similar statute.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and relevant stock exchange regulations at the specified office of the Principal Paying Agent or (where applicable) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Principal Paying Agent may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS, REGISTRAR AND TRANSFER AGENTS

The names of the initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed), to vary or terminate the appointment of the Principal Paying Agent, Paying Agent, Registrar or Transfer Agents and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar (which will maintain the Register outside the United Kingdom);

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, and Transfer Agent with a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and

(c) so long as any Notes are listed on the SGX-ST, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the SGX-ST.

In addition, the Issuer shall with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed) forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change referred to in the preceding paragraph and/or any appointment referred to in this paragraph shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents, the Registrar and the Transfer Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to them at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Asia or such other English language daily newspaper with general circulation in Asia. It is expected that such publication will be made in the *Asian Wall Street Journal.* The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such mailing and such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on such day as specified in the applicable Pricing Supplement after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 14.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

15.1 Meeting of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing in the aggregate not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including, *inter alia*, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be two or more persons holding or representing in the aggregate not less than 75% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons holding or representing in the aggregate not less than 25% in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90% in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modifications and Waivers

The Trustee may agree, without the consent or sanction of the Noteholders, Receiptholders or Couponholders, to any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

15.3 Substitution of Issuer

The Trustee may, subject to the prior written approval of the BSP (if and to the extent then required), without the consent of the Noteholders, the Receiptholders or the Couponholders at any time, agree with the Issuer to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of any entity owned or controlled by the Issuer, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

15.4 General

Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be promptly notified to Noteholders by the Issuer in accordance with Condition 14.

16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or provided with security and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into transactions or arrangements with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions an arrangements or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders and (c) to retain and not be in any way liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

19.2 Submission to Jurisdiction

The Issuer has in the Trust Deed agreed, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) may be brought in the English courts.

The Issuer has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or hereafter to the laying of the venue of any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons in the courts of England and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed in the Trust Deed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

19.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at its specified office for the time being at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

*The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled "Description of the Bank" in this Offering Circular. The selected financial information presented below as of and for the years ended 31 December 2013, 2014, and 2015 were derived from the consolidated financial statements prepared in accordance with financial reporting standards in the Philippines for banks and which include Philippine Financial Reporting Standards (**PFRS**), and audited by Punongbayan & Araullo (**P&A**) in accordance with PSA. The selected financial information as of 30 June 2016 and for the six month periods ended 30 June 2015 and 2016 were derived from the unaudited interim consolidated financial statements of the Bank, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed by P&A in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (PSRE 2410). The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.*

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended 31 December				For the six months ended 30 June		
	2013 (restated)	2014	2015	2015	2015	2016	2016
	(audited)				(unaudited)		
	(in ₱ millions)			(in US$ millions)[1]	(in ₱ millions)		(in US$ millions)[1]
Interest income on							
Loans and other receivables	45,685	53,907	63,836	1,359.4	30,042	35,569	757.4
Trading and investment securities	9,164	7,333	7,477	159.2	3,723	4,026	85.7
Due from other banks	1,576	2,065	795	16.9	499	339	7.2
Others	181	278	19	0.4	6	12	0.3
	56,606	63,583	72,127	1,535.9	34,270	39,946	850.6
Interest expense on							
Deposit liabilities	10,421	10,441	12,526	266.7	5,863	6,742	143.6
Bills payable and other borrowings	3,019	1,917	2,640	56.2	1,336	1,468	31.3
	13,440	12,358	15,166	322.9	7,199	8,210	174.9
Net interest income	43,166	51,225	56,961	1,213.0	27,071	31,736	675.7
Impairment losses	7,001	5,114	3,000	63.9	2,133	1,742	37.1
Net interest income after impairment losses	36,165	46,111	53,961	1,149.1	24,938	29,994	638.6
Other operating income							
Trading gain — net	8,422	5,868	4,740	100.9	4,388	2,304	49.1
Service charges and fees	12,991	15,386	16,453	350.4	7,580	9,094	193.7
Miscellaneous	10,431	8,233	10,746	228.8	4,453	10,708	228.0
	31,844	29,487	31,939	680.1	16,421	22,106	470.8
Other operating expenses							
Employee benefits	16,480	18,081	21,120	449.7	9,252	10,731	228.5
Occupancy	4,948	5,704	6,675	142.1	3,116	3,724	79.3
Taxes and licenses	4,769	5,780	6,683	142.3	2,980	3,570	76.0
Other operating expenses	17,062	18,965	20,666	440.1	11,354	16,927	360.5
	43,259	48,530	55,144	1,174.2	26,702	34,952	744.3
Income before Pre-acquisition Income	24,750	27,068	30,756	655.0	14,657	17,148	365.1
Pre-acquisition Income	-	-	-	-	-	(489)	(10.4)
Income before tax	24,750	27,068	30,756	654.9	14,657	16,659	354.7
Income tax expense	2,104	4,240	5,701	121.4	2,916	3,411	72.6
Net income after tax	22,646	22,828	25,055	533.6	11,741	13,248	282.1

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on 30 June 2016 of ₱46.96 to US$1.00.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December				As at 30 June	
	2013	2014	2015	2015	2016	2016
		(audited)			(unaudited)	
		(in ₱ millions)		(in US$ millions)[(1)]	(in ₱ millions)	(in US$ millions)[(1)]
Cash and other cash items	27,824	41,342	42,729	909.9	30,902	658.0
Due from the *Bangko Sentral ng Pilipinas*...	408,383	269,542	271,808	5,788.1	318,003	6,771.8
Due from other banks	26,939	45,621	24,837	528.9	40,659	865.8
Investment and trading securities	227,910	221,510	225,759	4,807.5	267,300	5,692.1
Loans and other receivables — net	922,553	1,212,930	1,382,752	29,445.3	1,417,546	30,186.2
Office premises, furniture, fixtures and equipment	17,908	21,093	24,995	532.3	25,825	549.9
Investment properties	10,381	13,861	14,633	311.6	15,029	320.0
Equity investments — net	4,839	5,332	5,702	121.4	4,510	96.0
Deferred tax assets	5,941	6,033	6,079	129.5	6,004	127.9
Other resources — net	20,100	26,385	31,960	680.6	29,831	635.2
Total resources	1,672,778	1,863,649	2,031,254	43,255.0	2,155,609	45,903.1
Deposit liabilities						
Demand	79,601	85,807	104,066	2,216.1	102,032	2,172.7
Savings	695,243	872,976	1,033,652	22,011.3	1,128,133	24,023.3
Time	570,489	533,499	526,135	11,203.9	541,478	11,530.6
Total deposit liabilities	1,345,333	1,492,282	1,663,853	35,431.3	1,771,643	37,726.6
Bills payable	94,243	100,361	97,543	2,077.2	82,398	1,754.6
Subordinated notes payable	3,007	10,030	10,030	213.6	10,030	213.6
Insurance contract liabilities	-	-	-	-	17,910	381.4
Other liabilities	65,841	81,307	60,215	1,282.3	62,492	1,330.7
Total liabilities	1,508,424	1,683,980	1,831,641	39,004.3	1,944,473	41,407.0
Equity	164,354	179,669	199,613	4,250.7	211,136	4,496.1
Total liabilities and equity	1,672,778	1,863,649	2,031,254	43,255.0	2,155,609	45,903.1

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on 30 June 2016 of ₱46.96 to US$1.00.

SELECTED FINANCIAL RATIOS

Selected financial ratios	For the year ended 31 December 2013	2014	2015	For the six months ended 30 June 2015	2016
	(in percentages except Earnings per Share)				
Return on assets[1]	1.6	1.3	1.3	1.3	1.3
Return on shareholders' equity[2]	14.0	13.4	13.4	13.0	12.9
Return on average common equity[3]	14.3	13.6	13.6	13.2	13.1
Net interest margin[4]	3.3	3.2	3.2	3.1	3.2
Cost-income ratio[5]	57.7	60.1	62.0	61.4	64.9
Loans to deposits[6]	65.9	71.2	75.3	72.4	75.7
Tier 1 capital adequacy ratio[7]	14.3	12.6	11.7	12.0	11.6
Total capital adequacy ratio[8]	15.5	14.4	13.3	13.7	13.1
Total equity to total assets[9]	9.8	9.6	9.8	9.7	9.8
Total non-performing loans to total loans — excluding interbank loans[10]	1.6	1.3	1.2	1.2	1.3
Total non-performing loans to total loans — including interbank loans[11]	1.6	1.3	1.2	1.2	1.2
Allowances for probable loan losses to total loans[12]	2.8	2.5	2.0	2.3	1.9
Allowances for probable loan losses to total non-performing loans[13]	170.7	188.4	166.1	189.4	153.0
Earnings per share (₱)[14]	6.22	6.27	6.84	3.18	3.54

Note:

(1) Net income divided by average total resources for the period indicated.

(2) Net income divided by average total capital funds for the period indicated.

(3) Net income attributable to shareholders of the Bank divided by average common equity for the period indicated.

(4) Net interest income divided by average interest-earning assets.

(5) Total operating expenses divided by the sum of net interest income and other income.

(6) Net receivables from customers divided by total deposits.

(7) Tier 1 capital divided by total risk-weighted assets.

(8) Total capital divided by total risk-weighted assets.

(9) Total capital funds divided by total resources.

(10) Total non-performing loans divided by total loans excluding interbank loans.

(11) Total non-performing loans divided by total loans including interbank loans.

(12) Total allowance for probable loan losses divided by total loans.

(13) Total allowance for probable loan losses divided by total non-performing loans.

(14) Net income divided by total number of outstanding shares.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be used by the Issuer for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as at 30 June 2016. This table should be read in conjunction with the Bank's unaudited but reviewed financial statements as at 30 June 2016 and the notes presented elsewhere herein.

	As at 30 June 2016	
	(in ₱ millions)	**(in US$ millions)[1]**
Short-term liabilities	(Actual)	
Deposit liabilities	1,632,544	34,764.6
Bills payable and subordinated notes payable	40,376	859.8
Other liabilities	17,365	369.8
Total short-term liabilities	1,690,285	35,994.1
Long-term liabilities net of current portion		
Deposit liabilities	139,099	2,962.1
Bills payable and subordinated notes payable	52,052	1,108.4
Other long-term liabilities	63,037	1,342.4
Total long-term liabilities net of current portion	254,188	5,412.9
Capital funds		
Issued share capital		
Preferred stock	5,150	109.7
Common stock	36,472	776.7
Capital paid in excess of par value	70,011	1,490.9
Retained earnings	103,294	2,199.6
Net unrealised gain on available-for-sale securities	(180)	(3.8)
Accumulated actuarial losses	(3,611)	(76.9)
Total capital funds	211,136	4,496.2
Total capitalisation and indebtedness[2][3][4]	2,155,609	45,903.2

Note:

(1) Translations from Pesos to US dollars for convenience of the reader have been made at the BSP Rate on 30 June 2016 of ₱46.96 = US$1.00.

(2) Total capitalisation is the sum of long-term debt net of current portion and stockholders' equity.

(3) As at 30 June 2016, the Bank had no contingent liabilities save for those set out in Note 31.3 to the unaudited interim condensed financial statements of the Bank as at 30 June 2016, included elsewhere in this Offering Circular.

(4) To note any post-30 June changes to capitalisation / indebtedness i.e. dividend pay out, etc.

Except as described above, there has been no significant change in the indebtedness or capitalisation or contingent liabilities of the Bank since 30 June 2016.

INVESTMENT CONSIDERATIONS

Investors should carefully consider the following investment considerations as well as the other information contained in this Offering Circular prior to making an investment in the Notes. In making an investment decision, each investor must rely on its own examination of the Bank and the terms of the offering of the Notes. The risks described below are not the only ones that may affect the Notes. Additional risks not currently known to the Bank or that the Bank currently deems immaterial may also impair the Bank's business operations.

Risks Relating to the Bank's Business

The Bank may not be able to successfully sustain its growth strategy.

Over the past three years, the Bank has experienced substantial growth (organically and through acquisitions), with its loan portfolio expanding by 18.5%, 19.5% and 17.4% in the years ended 31 December 2013, 2014 and 2015, respectively, and 21.4% for the six months ended 30 June 2016 (compared to 30 June 2015). The Bank's total assets reached ₱1.0 trillion as at 31 December 2010, the first local bank to achieve this milestone, resulting in the Bank being ranked as the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total assets thereafter stood at ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as at 31 December 2013, 2014 and 2015, respectively, and ₱2.2 trillion as at 30 June 2016. The Bank was also the industry leader in terms of investment banking, trust banking, private banking, remittances, leasing and finance and credit cards in 2015. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.

In particular, the Bank may not be successful in relation to the introduction of new services and products. It is entering into new lines of business in which it is likely to encounter significant competition from other banks already offering similar products and services being introduced. There can be no assurance that the Bank will be able to compete effectively against such existing banks. Furthermore, there may not be sufficient demand for such services and products, and they may not generate sufficient revenues relative to the costs associated with developing and introducing such services and products. Even if the Bank were able to introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

The Bank also faces a number of operational risks in executing its growth strategy and in particular the Bank's potential acquisition plans. The Bank will have to train its employees to properly adhere to new internal controls and risk management procedures. Failure to properly train and integrate employees, including employees from other banks that are acquired or merged or who join laterally, may increase employee attrition rates, require additional hiring, erode the quality of customer service, divert management resources, increase the Bank´s exposure to high-risk credit and impose significant costs on the Bank.

The Bank has some concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of 30 June 2016, the Bank's total exposure to borrowers (or outstanding receivables from customers) was ₱1,368.2 billion. The ten largest individual borrowers in aggregate accounted for 12.1% of the Bank's total exposure and its ten largest borrower groups in aggregate accounted for 21.0% of its total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group, excluding Government-related entities, of connected persons in excess of 25% of its net worth (the single borrower limit). As of 30 June 2016, the Bank's single borrower limit was ₱50.0 billion. In determining whether the Bank meets the single borrower limit of the BSP, the Bank includes exposures to related accounts (including accounts of subsidiaries and parent companies of the borrower). The Bank's largest borrower as of 30 June 2016 accounted for 2.1% of the Bank's total exposure and 13.6% of the Bank's total equity. The largest borrower group as of 30 June 2016 accounted for 2.8% of the Bank's total exposure and for 18.4% of the Bank's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial position and results of operation of the Bank. See "*The Philippine Banking Industry*" and "*Banking Supervision and Regulation*".

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures as of 30 June 2016.

Rank	Industry	Amount	per cent. of Total Exposure to Borrowers
		(₱ millions)	
1	Real estate activities	203,394	14.9
2	Wholesale and retail trade, repair of motor vehicles and motorcycles	192,698	14.1
3	Financial and insurance activities	166,611	12.2
4	Electricity, gas, steam and air-conditioning supply	162,062	11.8
5	Manufacturing	151,589	11.1
	Total	**876,354**	**64.1**

The Bank's exposure to these five sectors, totaling ₱876.4 billion, constituted 64.1% of the Bank's total loan portfolio. Although the Bank's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of non-performing loans (**NPLs**) and restructured assets, and adversely affect the Bank's business, financial position and results of operations.

The Bank may face increasing levels of NPLs and provision for impairment of assets.

The Bank's results of operations have been, and continue to be, negatively affected by the level of its NPLs. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the Bank's provisions for impairment of assets amounted to ₱7.0 billion, ₱5.1 billion, ₱3.0 billion and ₱1.7 billion, respectively, which represented 16.2%, 10.0%, 5.3% and 5.5%, respectively, of net interest income in those periods. A slowdown in global growth momentum may adversely affect the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in NPLs and impairment provisions.

The Bank's consolidated NPLs increased by 11.2% to ₱15.8 billion as at 31 December 2015 (representing 1% of the Bank's total loans net of interbank loans as at that date) from ₱14.2 billion as at 31 December 2014, and increased by 24.5% to ₱17.2 billion as at 30 June 2016 (representing 1.3% of the Bank's total loans net of interbank loans as at that date) from ₱13.8 billion as at 30 June 2015. The Bank has experienced significant growth in its loan portfolio in recent years and it may experience problems in non-payment arising from these new loans in the future. Any significant increase in the Bank's NPLs would have a material adverse effect on its financial condition, capital adequacy and results of operations.

The Bank believes that it has set aside adequate provisions and reflected current valuations as regards its investment portfolio. While the financial markets have since stabilised, there can be no assurance that the value of the Bank's investment portfolio will not deteriorate should renewed volatility in global financial markets occur.

The Bank's provisioning policies in respect of NPLs require significant subjective determinations which may increase the variation of application of such policies.

BSP regulations require that Philippine banks classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan, and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

Furthermore, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards and implementation of tighter regulations on credit risk (e.g., BSP Circular 855 amendments to loan-loss provisions). The level of provisions currently recognised by the Bank in respect of its loan portfolio depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank has a policy to test its loan portfolio for impairment on a quarterly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's provisions may not be adequate to cover increases in the amount of its NPLs, or any deterioration in the overall credit quality of the Bank's loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. These new accounting standards may result in the Bank recognising significantly higher provisions for loan loss in the future.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPLs exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of provisions in the future.

The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses.

As of 30 June 2016, the Bank's secured loans represented 26.4% of the Bank's total loans, and 46.9% of the collateral on these secured loans consisted of real properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's provisions for credit losses could adversely affect its business, financial position, results of operations and capital adequacy ratio.

Moreover, the Bank may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the bid price and the loan balance plus accrued interest at the time of such foreclosures. While the Bank at each reporting date marks to market its foreclosed properties in accordance with financial reporting standards in the Philippines (**FRSP**) for banks and BSP regulations, it may incur further expenses to maintain such properties. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation.

The Bank has a high exposure to the Philippine property market through its ROPA holdings.

The Bank has significant exposure to the Philippine property market due to the level of its holdings in Real and Other Properties Acquired (**ROPA**). ROPA generally refers to real estate assets the Bank has acquired as a result of foreclosures of real property which stand as collateral for real estate loans. When the Bank's collection efforts on its real estate loans are unsuccessful, the Bank is constrained to institute foreclosure proceedings against the collateral property, and subsequent to foreclosure, these real properties are consolidated in the Bank's name and booked as ROPA. As at 31 December 2013, 2014 and 2015, net ROPA, which represents ROPA net of accumulated depreciation and allowance for impairment, which amounted to ₱9.0 billion, ₱8.8 billion and ₱7.3 billion, respectively, representing 0.5%, 0.5% and 0.4% of the Bank's total assets as of that date. As at 30 June 2016, net ROPA amounted to ₱7.6 billion, representing 0.4% of the Bank's total assets as of that date. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices collapsed following the Asian financial crisis but recovered until the global financial crisis in 2008 restrained demand. However, property demand and prices have since recovered on favourable macroeconomic conditions and strong demand from families of overseas Filipino workers (**OFWs**) as well as workers from the Information and Communication Technology (**ICT**) and Business Process Outsourcing (**BPO**) industries. Property prices are affected by a number of factors, including the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments. Historically, the Bank has low home loan default rates compared to industry standards. As at 30 June 2016, BDO's home loan default rate was at 2.2%, compared to the average industry rate of 3.0%.

In 2015 and for the six months ended 30 June 2016, the Bank sold ₱2.9 billion and ₱1.2 billion worth of acquired assets, respectively, and intends to continue with its strategy of gradually reducing ROPA levels. As a result, the Bank recorded net ROPA of ₱7.3 billion as at 31 December 2015 and ₱7.6 billion as at 30 June 2016, representing 0.4% and 0.4%, respectively, of the Bank's total assets. To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell off and recover the full estimated value of its ROPA. Furthermore, in an extended downturn in the property market, given the Bank's significant amount of ROPA it may take a number of years before the Bank is able to realise a significant part of the value of its ROPA. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA holdings, reduce the Bank's net income and, consequently, adversely affect the Bank's business, financial condition and results of operations generally.

Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the BIR) and international bodies, including the Financial Action Task Force (the FATF) may have an adverse impact on the Bank.

The Bank is regulated principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the reserve requirements of Philippine banks and the banking industry's exposure to the real estate sector.

For example, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the **Anti-Money Laundering Act**) to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the Financial Action Task Force (the **FATF**). However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories (**NCCTs**), confirming that anti-money laundering (**AML**) measures to remedy deficiencies that were originally identified by the FATF are in place. AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. In June 2012, President Benigno S. Aquino III signed into law two measures intended to further strengthen the country's campaign against money laundering. These measures included criminalising terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments ex parte, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing. There can be no assurance however, that current Philippine AML systems will continue to be effective against money laundering and similar transactions, as shown by the recent incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

In April 2012, the BSP implemented Circular No. 753 (**Circular 753**), which provided for the unification of the statutory/legal and liquidity reserve requirements applicable to banks, the exclusion of vault cash as eligible forms of reserve requirement compliance, and the reduction in the unified reserve requirement ratios (e.g., from 21% to 18% for universal commercial banks). Circular 753 also terminated the interest on reserve deposits placed with the BSP. These developments could intensify competition among banks to compensate for the foregone interest income on reserve deposits and lead to further margin pressures.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures (**REEs**) to include mortgages and loans extended to the following: individuals to finance the acquisition/ construction of residential real estate for own-occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks will be required to submit the expanded report at the end of the fourth quarter of 2012.

As these guidelines are for monitoring purposes only, banks shall continue to comply with the 20% adjusted real estate exposure limit as provided under BSP Circular 600. There is no guarantee, however, that the BSP will not enforce further tightening of real estate exposure limits in the future to head off potential asset bubbles. For banks, this translates to reduced loans to the sector as they tighten standards in line with BSP moves.

Meanwhile, in its meeting on 8 May 2014, the Monetary Board further increased the reserve requirement by one percentage point to 20% effective 30 May 2014 following the one percentage point hike earlier to 19% effective on 4 April 2014 on efforts to rein in rising inflationary pressures.

In May 2013, the BSP released new guidelines governing its Special Deposit Account (**SDA**) facility limiting SDA access by trust departments/entities to fund management activities of trust accounts effective 1 January 2014 and banning other fiduciary business including agency accounts and investment management activities access to the SDA facility. The new rules likewise required banks to wind down all SDA placements not consistent with the BSP memorandum by at least 30% by 31 July 2013, until these were eventually phased out by on 30 November 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 to 2.0%. These measures triggered shifting of funds to higher yielding alternative instruments like time deposits and riskier assets like equities. The consequent surge in system liquidity from these regulations intensified market competition and squeezed bank margins. In response to accelerating liquidity growth and rising inflationary pressures largely on supply factors, the BSP raised its key overnight rates in July this year, as well as interest rates for reserve requirements (discussed in the preceding paragraph) and SDA, which now stands at 2.5% following two rate hikes of 25 bps each effective June and September 2014.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, Otherwise Known as the "Anti-Money Laundering Act of 2001", As Amended), which act expanded the AMLA covered institutions and crimes. This law took effect on 7 March 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth ₱1 million and above. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth ₱500,000 and up.

Aside from this, predicate crimes – or those criminal acts where the law may also be applied if money is involved – were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guidelines applying to both benchmark and non-benchmark securities. Under

BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used. Banks with large holdings of Peso-denominated securities in their portfolio are seen most affected by the new BSP ruling as they will have to absorb any losses from the change in valuation.

The Bank signed up on 25 April 2014 ahead of the 1 July 2014 deadline to participate in Foreign Account Tax Compliance Act (**FATCA**), a US law enacted in 2010 to combat tax evasion by US taxpayers. Under FATCA, participating foreign financial institutions (**FFIs**) are required to disclose data or information on clients who are US taxpayers. Non-compliant FFIs face a 30% withholding tax on payments of US-sourced income, e.g., interest, dividends, among others. In general, Philippine banks participating in FATCA face execution risks not to mention problems with compliance/monitoring given that FATCA system implementation process takes time to set up, requires additional resources (e.g., manpower) as well as attendant costs.

In June 2016, the BSP implemented the Interest Rate Corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the Special Deposit Account (**SDA**) prior to the IRC, is now replaced by the Overnight Deposit Facility (**ODF**) whose rate remains at 2.5%, and forms the lower bound of the IRC. Meanwhile, the rate for the Overnight Lending Facility (**OLF**) has replaced the Repurchase Facility (**RP**). The rate for the OLF, which forms the upper bound of the IRC, is now down to 3.5% from 6.0% under the RP. The BSP likewise introduced the Term Deposit Facility (**TDF**) to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios.

The Bank plans to continue to expand its consumer loan operations. Such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans.

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility.

The Bank's asset portfolio is comprised primarily of loans to customers and securities held for investment, primarily Philippine Government securities denominated in Pesos. During periods of high volatility in interest rates and prices of securities, the Bank is able to earn relatively higher earnings from its trading and investment securities, although this may be counter balanced by the Bank's increased risk aversion in the difficult operating environment and the consequent reduction in fixed income and foreign exchange trading business.

The Bank's income from these activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates may have a substantial impact on the value of the Bank's investments in fixed income securities. Escalating inflationary pressures have prompted the Bank, in line with other financial institutions in the Philippines, to shorten the duration of its Peso securities inventory to avert potential losses that may arise once interest rates rise. This has resulted in lower Peso asset yields on replacement securities. In addition, downgrades of the credit ratings of some of these fixed income securities may negatively affect the Bank's results of operations. Although the Bank does have hedging and trading limits in place to mitigate these risks, there can be no assurance that the Bank will not incur substantial investment and trading losses in the future in connection with its investment and trading activities.

In addition, the varying gains recognised by the Bank as a result of its trading of securities have caused the Bank's trading income to vary significantly from period to period. For instance, the Bank experienced a net trading loss amounting to ₱2.9 billion for the year ended 31 December 2008 (which represented 5.1% of total income in that period), attributable to the volatility in the global financial markets arising from the subprime crisis in the U.S. However, as global financial markets stabilised, the Bank generated gains from trading activity, with trading gains representing 7.3%, 10.7% and 7.2% of total income for the years ended 31 December 2009, 2010 and 2011, respectively. For the year ended 31 December 2015 and the six months ended 30 June 2016, the Bank recorded trading gains of ₱4.7 billion and ₱2.3 billion, representing 5.3% and 4.3% of total income, respectively. Nevertheless, a slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from trading activity.

The results of operations of the Bank's businesses may vary significantly from time to time.

As a consequence, in part, of the acquisitions the Bank has made over the financial years ended 31 December 2013, 2014 and 2015, and the varying levels of provisions it has made in respect of NPLs, ROPA, pension liabilities, impairment in the value of investments and other developments, the Bank's results of operations have varied from period to period in the past and may fluctuate significantly in the future due to these and other factors. In addition, the varying gains recognised by the Bank as a result of its trading of securities have caused the Bank's trading income to vary significantly from period to period. For instance, the Bank experienced trading gains of ₱8.4 billion, ₱5.9 billion and ₱4.7 billion for the years ended 31 December 2013, 2014 and 2015, respectively, with trading gains representing 11.2%, 7.3% and 5.3% of total income for the years ended 31 December 2013, 2014 and 2015, respectively. For the six months ended 30 June 2016, the Bank recorded trading gains of ₱2.3 billion, representing 4.3% of total income for six months ended 30 June 2016. Nevertheless, an increase in interest rates may make it more difficult for the Bank to generate substantial gains from trading activity.

The Bank's results of operations may be adversely affected if the assumptions used to determine the cost of retirement benefits under the Bank's retirement plans change.

The Bank has a funded non-contributory retirement plan covering substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2015, the fair value of the retirement plan assets of the Bank was ₱20.1 billion and the present value of the obligation was at ₱18.7 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognised a retirement benefit asset of ₱1.4 billion for the year.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 4.9% to 5.5% and a salary increase of 8.0% per annum, compounded annually. If these assumptions prove to be incorrect, the Bank's funding obligations in respect of its retirement plans may be significantly higher than currently anticipated. The Bank regularly reviews its assumptions and takes appropriate actions to ensure that the retirement plan assets meet actuarial requirements. The Bank plans to reassess these actuarial assumptions in relation to its retirement plan in the near future. This revaluation may require the Bank to increase the amount it amortises each year in respect of its retirement fund liabilities, which would adversely affect the Bank's net income.

The Bank's recent and potential acquisitions may represent a risk if not managed effectively.

The Bank completed several acquisitions in 2014 and 2015, including acquiring Citibank Savings in March 2014, the trust business of Deutsche Bank in June 2014, Real Bank in August 2014 and One Network Bank, Inc. in July 2015. On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. (**GPHC**), the parent firm of life insurer Generali Pilipinas Life Assurance Company (**GPLAC**) and non-life insurer Generali Pilipinas Insurance Company (**GPIC**). In the context of the agreement and subject to regulatory approvals, the Bank will assume full control of GPHC and GPLAC, subject to closing conditions and the requisite corporate and regulatory approvals. On 30 June 2016, the Bank acquired full interest in GPHC. GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp., and BDO Life Assurance Company Inc., respectively.

On 14 June 2016, the Bank announced the acquisition of SB Cards Corp.'s (**SB Cards**) exclusive rights as issuer and acquirer of Diners Club International credit cards in the Philippines. The acquisition, which includes SB Cards' existing Diners Club portfolio and its cardholder base, was completed on 30 September 2016.

While the Bank believes these acquisitions complement the Bank's existing business lines and will provide opportunities to seize new market opportunities in line with the Bank's goal to maximise long-term shareholder value, there are a number of risks inherent in any merger/acquisition process. These include risks that:

- The expected cost savings or revenue enhancing opportunities cannot be realised in the amounts or within the time frames contemplated;
- The extraordinary expenses, costs or difficulties relating to the integration of the businesses and information management systems are greater than expected;
- The existing customer and employee relationships are adversely affected; and
- The integration difficulties or other factors relating to the rationalisation of the business cause unexpected business interruption.

Moreover, the Bank continually examines opportunities for acquisitions in the future. These potential acquisitions will also subject the Bank to risks such as the deterioration of asset quality, the diversion of management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients, leverage synergies, rationalise operations, or develop the skills required for new businesses and markets.

Accordingly, no assurance can be given that the Bank's recent or contemplated mergers or acquisitions will result in the benefits to its business anticipated by the Bank or that the balance of the integration process will not adversely affect the Bank's existing operations or financial condition.

An inability to manage the Bank's growth could disrupt its business and reduce its profitability.

The Bank has experienced growth in recent years and expects its business to continue growing as a result of its business operations and expansion plans. The Bank expects this growth to place significant demands on its resources, operations, management and require it to continuously evolve and improve its operational, financial and internal controls across the organisation. In particular, continued expansion increases the exposure to certain additional risks, including:

- difficulties raising capital for expansion in light of financial market disruptions might increase leverage if equity funds are not available when needed;
- difficulties arising from operating a significantly larger and more complex organisation and expanding into new geographic areas and territories;
- difficulties in the assimilation and seamless integration of the assets and operations of the expanded operations with the existing business;
- the diversion of management's attention;
- the failure to realise expected profitability or growth in new ventures;
- the failure to realise expected synergies and cost savings;
- difficulties arising from coordinating and consolidating corporate and administrative functions, including integration of internal controls and procedures;
- changes in technology;
- unforeseen legal, regulatory, contractual, labor or other issues; and
- an inability to attract new talent due to limited resources in the market.

An inability to manage its growth may have an adverse effect on the Bank's business and results of operations.

The Bank is effectively controlled by one shareholder group, with which it has extensive financial and business connections.

The Bank is effectively controlled by the SM Group, which is comprised of entities affiliated with SM Investments Corporation (**SMIC**) and its controlling shareholders. As at 30 June 2016, SMIC directly owned approximately 40.1% of the Bank's common shares, and Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings (formerly SM Land), companies affiliated with the SM Group, held 6.7%, 5.5% and 2.1%, respectively, of the Bank's issued common shares. Through these and other entities, the SM Group owned directly and indirectly 54.6% of the Bank's common shares, thus effectively controlling the Bank and the composition of its Board of Directors. There can be no assurance that the interests of the SM Group will necessarily coincide with the interests of the Bank and the Bank's other Shareholders. *See "Management"*.

The Bank has historically had close business relationships with the SM Group, and as at 30 June 2016, the Bank's loans to the SM Group amounted to ₱35.9 billion, or 2.6% of the Bank's total portfolio. The Bank's loans to the SM Group are on commercial, arm's-length terms. While the Bank does not rely on the SM Group for any funding, financial guarantees, or other forms of financial support, any default by the SM Group on such loans from the Bank, or failure by the SM Group to make timely payments of amounts due under such loans, could have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank benefits from its relationship with the SM Group through certain business synergies, including access to SM clients and prospective clients, joint product development and branch locations in SM malls. As a result, deterioration in the financial condition of the SM Group could have a material adverse effect on the Bank's financial condition and business opportunities.

In addition, if there is any public perception in the Philippines that the Bank is reliant on the financial condition of the SM Group, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of the SM Group. In particular, this could result in withdrawals of deposits or decrease in new deposits beyond levels anticipated by the Bank, or otherwise have a material adverse effect on the Bank's financial condition and results of operation.

If the Bank fails to maintain desired levels of customer deposits, its business operations may be materially and adversely affected.

Customer deposits are the Bank's primary source of funding and the Bank intends to continue expansion of its deposit base, particularly low-cost sources such as demand and savings deposits. However, many factors affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, retail customers may reduce their deposits and increase their investment in securities for a higher return, while small, mid-market and large corporate customers may reduce their deposits in order to fund projects in a favourable economic environment. If the Bank fails to maintain its desired level of deposits, the Bank's liquidity position, financial condition and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding, and it is uncertain whether the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Bank's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions or severe disruptions in the financial markets.

The Bank may fail to upgrade or effectively operate its information technology systems.

The Bank's businesses are heavily dependent on the ability to timely and accurately collect and process a large amount of financial and other information across numerous and diverse markets and products at its various branches, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of the Bank's financial control, risk management, accounting or other data collection and processing systems, together with the communication networks connecting the Bank's various branches and offices is critical to its business and its ability to compete effectively. The Bank employs a core banking system with centralised database to support its domestic and international business operations. The core banking system is linked to the Bank's electronic channels including ATMs, internet banking, and mobile banking, which provides online real-time transaction processing. The data on the Bank's core banking system, centralised database and electronic channels are protected with real-time backup and replication infrastructure. Any failure in the Bank's systems or to implement new systems, particularly for retail products and banking transactions could have a negative effect on its business, financial condition and results of operations.

The Bank's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Bank is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Bank in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial position and results of operations.

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other materially disruptive problems caused by the Bank's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failures in security measures could have a material adverse effect on the Bank's business, financial position and results of operations.

The Bank is subject to credit, market and liquidity risks, all of which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments or strategies used by the Bank to manage its exposure to market or credit risk proves ineffective, the Bank may not be able to effectively mitigate its risk exposures, in particular to market environments or against particular types of risk. The Bank's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitise, sell, purchase or syndicate particular loans or loan portfolios. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the values of financial instruments caused by changes in market prices or rates. The Bank's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing the Bank's liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risks could have a negative effect on its business, financial position and results of operations.

The Bank is subject to interest rate risk.

The Bank realises income from the margin between interest-earning assets (due from BSP, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, investment securities and loans and receivables), and interest paid on interest-bearing liabilities (deposit liabilities, bills payable and subordinated debt). The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of the Bank. In a rising interest rate environment, if the Bank is not able to pass along higher interest costs to its customers, it may negatively affect the Bank's profitability. If such increased costs are passed along to customers, such increased rates may make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors may find it easier to enter the markets in which the Bank operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to foreign exchange risk.

As a financial organisation, the Bank is exposed to foreign exchange risk. Movements in foreign exchange rates could adversely affect the Bank's business, financial condition and results of operations. The foreign exchange transactions of Philippine banks are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide 100.0% foreign asset cover for all foreign currency liabilities in its Foreign Currency Deposit Unit (**FCDU**) books. As of 30 June 2016, the Bank had ₱369.7 billion of foreign assets and ₱364.3 billion of foreign currency liabilities in FCDU books, primarily in U.S. dollars. The decline in the value of the Peso against foreign currencies, in particular, the U.S. dollar may affect the ability of the Bank's customers or the Government to service debt obligations denominated in foreign currencies and, consequently, increase NPLs. Conversely, increases in the value of the Peso can depress the export market which can negatively affect the ability of the Bank's customers to repay their debt obligations or may reduce credit quality or demand. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an adverse effect on the Bank.

Increased enforcement by the Government related to priority lending for the agrarian reform and agricultural sectors could adversely affect the Bank's business, financial position and results of operations.

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian reform beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. The Bank has been unable to generate sufficient exposure to the agrarian reform based sector due to its prudent credit and risk management policies, and has, as a result, paid fines in the past and may continue to do so in the future. As an example, as at 31 December 2015, the total requirement applicable to the Bank was ₱151.8 billion, comprising a ₱91.1 billion minimum requirement to the agricultural sector and a ₱60.7 billion requirement to agrarian reform beneficiaries. As at 31 December 2015, the Bank lent a total of ₱63.3 billion to the agricultural sector and ₱1.4 billion for agrarian reform credits. As a result of its non-compliance with the requirement for agriculture lending and lending to agrarian reform beneficiaries, the Bank paid a fine of approximately ₱362.0 million in 2015. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial position and results of operations could be adversely affected.

A downgrade of the Bank's credit rating could have a negative effect on its business, financial position and results of operations.

In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favourable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and also adversely affect its financial position and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. In September 2016, BDO's financial strength rating was affirmed at BBB- by Capital Intelligence in view of the Bank's capital position following its recent capital raising transactions as well as the sustained improvement in its asset quality. In November 2015, Moody's assigned the Bank a Counterparty Risk Assessment of Baa1(cr)/P-2(cr), which follows the ratings agency's upgrade of the Bank's credit strength to Baa2 in December 2014 on account of BDO's robust liquidity and capital profile. In April 2016, the Bank's relevant credit rating was affirmed by Fitch at BBB-, reflecting the Bank's moderate but improving core profitability and asset quality.

However, any reduction in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and negatively impact its operating results and financial position.

The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Bank's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial position and results of operations.

The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to detect and prevent fraud or other misconduct committed by the Bank's employees or outsiders on a timely basis.

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidents may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through the financial sector. Any occurrence of fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. Although the Bank has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud in the course of its business.

The Bank is involved in litigation, which could result in financial losses or harm its business.

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. However, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial position or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

The Bank has previously been involved in litigation relating to the use of its brand name and related intellectual property rights, and any future dispute over these rights could adversely affect the Bank.

As of 10 October 2016, the Bank has 336 trademark registrations covering its "BDO" and "BDO"-related marks in 60 countries worldwide. As of the date of this Offering Circular, the Bank has successfully resolved its litigation with Stichting BDO, an international accounting firm (**Stichting**). On 10 April 2014, the Bank and Stichting signed and executed a Global Trademark Use and Co-Existence Agreement, stipulating the intellectual property ownership and use of the "BDO" and "BDO-related" marks. Consequently, all litigations between the two companies have been resolved, and the parameters for the respective parties' uses of their "BDO" and "BDO"-related marks in and outside the Philippines have been agreed.

If other parties bring suit and are successful against the Bank in preventing it from using its brand names and related intellectual property rights, the Bank may be forced to cease using the name "BDO" and other trademarks or property rights, which would adversely impact the Bank's ability to market its product offerings. Alternatively, if other parties sell products that use counterfeit versions of the Bank's brands or otherwise look like the Bank's brands, consumers may confuse the Bank's products with products that they consider inferior. This could cause consumers to refrain from utilising the Bank's services and purchasing the Bank's products in the future and adversely affect the Bank's brand image and revenues. It cannot be assured that the Banks will be successful either in defending suits against it for trademark infringement or related litigation, or in seeking to prevent others from using counterfeit versions of its brands. Any failure by the Bank to protect its proprietary rights could have an adverse effect on the Bank's competitive position, business, results of operations and prospects.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic instability in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the price of the Notes.

In 2015, the effect of the devaluation of the Renminbi by the People's Republic of China (the **PRC**), coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, the anticipated increase in the U.S. Federal Reserve's interest rate in 2015 and 2016 has led to an appreciation of the U.S. dollar relative to a number of emerging economy currencies, resulting in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on 23 June 2016, where the UK public voted by a majority in favour of the British government taking the necessary action for the UK to leave the European Union. If the UK or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

Economists have downgraded their global growth outlook in 2016, following the UK's decision via a referendum to leave the EU in June 2016. The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronisation in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

If the Bank is not able to integrate any future acquisitions, the Bank's business could be disrupted.

The Bank may seek opportunities for growth through acquisitions or be required to undertake mergers mandated by the BSP. Any future acquisitions or mergers may involve a number of risks, including deterioration of asset quality, diversion of its management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients, leverage synergies, rationalise operations, or develop the skills required for new businesses and markets, or unknown and known liabilities, some or all of which could have an adverse effect on its business.

Risks Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank.

The recent mergers and consolidations in the banking industry, as well as the liberalisation of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of 30 June 2016, according to data from the BSP, there are a total of 41 domestic and foreign universal and commercial banks operating in the Philippines.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;

- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; b) investment in up to 100% of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;

- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;

- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and

- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product (**GDP**) of the Philippines; and
- Volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking system were 2.2%, 1.9%, and 1.7% as at the years ended 31 December 2013, 2014 and 2015, respectively.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Bank, may be incomplete or obsolete. The Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

However, BSP's early adoption of Basel III on 1 January 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards are seen as efforts to further boost the Philippine banking industry's resiliency and enhance its ability to absorb risks.

Philippine banks face regulatory pressure to comply with new and stricter capital standards, liquidity and leverage standards, as well as meet prudential limits for real estate exposures.

The BSP Monetary Board approved major revisions to the country's risk-based capital adequacy framework on 1 July 2007, to align the current framework with the Basel II standards as issued by the Basel Committee on Banking Supervision (**BCBS**), which is an international committee of banking supervisory authorities. Basel II standards make regulatory capital requirements more risk sensitive and reflective of all, or at least most, of the risks financial institutions are exposed to. In terms of minimum capital requirements, Basel II standards include the addition of specific capital requirements for credit derivatives, securitisation exposures, counterparty risk in the trading book, and operational risk.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. The revised standards also distinguish further (i) Tier 1 capital, which is also referred to as Going-Concern Capital, and is composed of Common Equity and Additional Tier 1 capital; and (ii) Tier 2 capital, which is also referred to as Gone-Concern capital and establish new eligibility criteria for such capital instruments previously not implemented in regulatory capital instruments.

In response to Basel III, the BSP and Monetary Board imposed a number of new requirements, including a capital surcharge to banks deemed as Domestic Systemically Important Banks (**D-SIB**), with compliance to be phased in starting from January 2017, as well as increased minimum capital requirements for banks in all categories and new liquidity requirements for local banks such as the Liquidity Coverage Ratio (**LCR**) and the Net Stable Funding Ratio (**NSFR**). In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient High Quality Liquid Assets (**HQLAs**) that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements within 2016.

For further details of the Basel III requirements and its implementation in the Philippines, see "*Banking Supervision and Regulation – Capital adequacy requirements and reserve requirements*"

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

The Bank's non-compliance with FATCA may cause material and adverse impact on the Bank's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, FFIs that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions (**PFFIs**) in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service (**IRS**).

FATCA requires certain U.S. taxpayers holding foreign financial assets with an aggregate value exceeding $50,000 to report certain information on a new form (Form 8938 — Statement of Specified Foreign Financial Assets) that must be attached to the taxpayer's annual return.

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 25 April 2014 as a PFFI and then amended its FATCA status on 27 March 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement (**IGA**). The Bank's FATCA ID and Global Intermediary Identification Number is URSOGI.00000.LE.608.

Under the IGA, the local tax authority and the BIR are the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld it could result in the Bank's taxation charge being increased.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Risks Relating to the Philippines

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso has declined from approximately ₱29.00 to one U.S. Dollar in July 1997 to ₱56.18 to one U.S. dollar by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an out flow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As of 31 December 2015, according to BSP data, the Peso has depreciated by 5.7% to ₱47.166 per U.S.$1 from ₱44.617 per U.S.$1 at the end of 2014. As of 14 October 2016, the Peso was at ₱48.473 against the U.S. dollar.

Substantially all of the Bank's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Bank's business, financial position and results of operations.

Substantially all of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, their businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;

- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (**MERS-CoV**), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

Political instability may have a negative effect on the Philippine economic condition which could have a material impact on the Bank's businesses.

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct by the previous administration.

On 27 March 2014, the Government and the Moro Islamic Liberation Front (**MILF**) signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On 10 September 2014, the draft of the Bangsomoro Basic Law (**BBL**) was submitted by former President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force (**SAF**) of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL. The Board of Inquiry on the Mamasapano incident and the Senate released their reports on the Mamasapano incident. On 27 March 2015, former President Aquino named a Peace Council consisting of five original members to study the draft BBL. 17 co-convenors were later named as part of the Peace Council. The Council examined the draft law and its constitutionality and social impact. The Council Members testified before the House of Representatives and the Senate, and submitted their report, which endorses the draft BBL but with some proposed amendments. On 13 and 14 May 2015, the Senate conducted public hearings on the BBL in Zamboanga and Jolo, Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity.

Presidential elections for the Philippines were held on 9 May 2016 and on 30 June 2016 President Rodrigo Duterte assumed the presidency with a solid mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

There can be no assurance that the current administration will continue to implement social and economic policies favored by the previous administration. Major deviation from the policies of the previous administration or fundamental change of direction may lead to an increase in political or social uncertainty and instability. The President's unorthodox and radical methods may also raise risks of social and political unrest. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Company's business, prospects, financial condition and results of operations.

Acts of terrorism and violent crimes could destabilise the country and could have a material adverse effect on the Bank's business and financial condition.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. The fate of Sekkingstad and Flor is still unknown. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters (**BIFF**) and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On 2 September 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organisation and/or their allies are responsible for the bombing.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilise parts of the country and adversely affect the country's economy. Any such destabilisation could cause interruption to parts of the Company's business and materially and adversely affect its financial conditions, results of operations and prospects.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the WHO (World Health Organisation) declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of Ebola virus infection but was later released after testing negative for the disease. While still Ebola-free, the

Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: a) the considerable number of OFWs in the Ebola-hit West African countries; b) the impact of international travel which raises the probability of transmission; and c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of WHO terminated the Public Health Emergency of International Concern in regards to the Ebola Virus Disease outbreak.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. At the last Monetary Board meeting in May 2016, the BSP maintained its key policy rates for the third time in 2016 at 4.00% for overnight borrowing and 6.00% for overnight lending rates. However, interest rates may increase in the future as price pressures begin building as a result of strong economic growth.

The Bank realises income from the margin between income earned on its assets and interest paid on its liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

PFRS continues to evolve as standards and interpretations promulgated subsequent to 31 December 2013 come into effect. PFRS 9, the local adoption of International Financial Reporting Standards (**IFRS**) 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board to replace International Accounting Standards (**IAS**) 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortised cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the

Banks financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach.

PFRS 9 also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets. Guidelines on the early adoption of PFRS 9 by banks and other BSP-supervised financial institutions of PFRS 9 were approved by the BSP in 2011 under Circular No. 708 s. 2011.

The latest amendment to PFRS 9, issued in 2013, contains no stated effective date and includes consequential amendments which remove the mandatory effective date of 1 January 2015 but allows each version of the standard to be available for early application.

IFRS 9, issued in July 2014, replaces previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010), a new hedge accounting model (in 2013) and PAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Philippine Financial Reporting Standards Committee (**FRSC**) and the Board of Accountancy have yet to approve the adoption of the final version of IFRS 9. The adoption of the newly published IFRS 9 upon approval of FRSC and Board of Accountancy will primarily have an effect on the classification and measurement of the Group's financial assets and liabilities, hedge accounting and impairment methodology of the Group. The Bank has opted not to undertake early adoption of PFRS 9 for its 2014 and 2015 financial reporting. An impact evaluation was conducted in the second quarter of 2015 using the audited financial data as of 31 December 2014.

Financial statements of Philippine banks are prepared in accordance with financial reporting standards in the Philippines (**FRSP**) for banks which requires the use of certain critical accounting estimates. Following the issuance of BSP Circular No. 912 dated 27 May 2016 citing the mandatory implementation date and closure of the early adoption window of PFRS 9 *Financial Instruments*, the Bank no longer conducted impact evaluation study on the early adoption of PFRS 9 for the second quarter of 2016. Instead, the Bank will adopt the full provisions of PFRS 9 on its mandatory effectivity date of 1 January 2018.

The Bank believes that other amendments and improvement to PFRS issued effective after 31 December 2013 will have no material impact on the Bank's financial statements.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The sovereign credit ratings of the Philippines directly affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies – Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2015. Meanwhile, Fitch has kept the country's credit rating at "BBB-" in the last three years, with the last review held in April 2016. All ratings are a notch above investment grade and the highest that the country has received so far from any credit ratings agency.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Bank's business materially disrupt the Bank's operations and result in losses not covered by its insurance as customers intentionally default on their loans secured by the vehicles damaged by the calamity.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effects on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws and The Philippine Stock Exchange's (**PSE**) listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. As a result, noteholders may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the **SRC**) requires the Bank to have at least two independent Directors or such number of independent Directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has five independent Directors. Many other jurisdictions may require more independent directors.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of noteholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting Noteholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of Noteholders generally, which may result in them taking actions that are contrary to the interests of Noteholders.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognised principles of international law consistent with the United Nations Convention on the Law of the Sea (**UNCLOS**). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

On 9 May 2013, a Philippine Coast Guard ship opened fire on a Taiwanese fisherman's vessel in a disputed exclusive economic zone between Taiwan and the Philippines, killing a 65-year old Taiwanese fisherman. Although the Philippine government maintained that the loss of life was unintended, Taiwan imposed economic sanctions on the Philippines in the aftermath of the incident. Taiwan eventually lifted the sanctions in August 2013 after a formal apology was issued by the Government of the Philippines. However, the incident has raised tensions between the two countries in recent months.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the operations of the Bank could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favor of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85% of the South China Sea, including 80% of the Philippines Exclusive Economic Zone (EEZ) in the West Philippine Sea. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and financial performance.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Bank has operations could materially and adversely affect the Bank's business, financial condition and results of operations.

Risks Relating to an Investment in the Notes

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of investing in the Notes in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Noteholders may face difficulties enforcing judgments against the Bank.

The Bank is organised under the laws of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the Bank outside of the Philippines in any actions pertaining to the Notes. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines.

As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgments obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud; (ii) the foreign court rendering such judgment did not have jurisdiction; (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines; (iv) the Bank did not have notice of the proceedings before the foreign court; or (v) such judgment was based upon a clear mistake of law or fact.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its debt is evidenced by a public instrument and the Bank will undertake in the Terms and Conditions of the Notes and the Trust Deed not to create or permit to subsist any preference or priority in respect of any Relevant Indebtedness (as defined in Condition 4) pursuant to Article 2244(14). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Notes in the event of the liquidation of the Bank.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the Investor's Currency) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Bank is not aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Notes or receipt of any dividends.

The Notes may have limited liquidity.

The Notes constitute a new issue of securities for which there is no existing market. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. Although the Dealers have advised the Bank that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

Notes where denominations involve integral multiples: definitive Notes.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as specified in the applicable Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

Noteholders are required to rely on the procedures of the relevant clearing system and its participants while the Notes are cleared through the relevant clearing system.

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

If definitive Notes are issued, holders should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The implementation of Basel III guidelines may have an adverse effect on the position of the Noteholders.

On 17 December 2009, the BCBS proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled 'Strengthening the resilience of the banking sector'. On 16 December 2010 and on 13 January 2011, the BCBS issued its final guidance on Basel III. The Basel III reforms require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The BCBS has proposed that the guidelines should be implemented from 1 January 2013. In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. Under the new Basel III capital standards proposed by the BSP, Philippine banks are required to maintain at least 7.5% and 10.0% Tier 1 and total Capital Adequacy Ratio (**CAR**), respectively, compared to the current minimum levels of 5% and 10% These effectively make the proposed BSP requirements more stringent than those of the BIS minimum levels of 6.0% and 8.0% Tier 1 and total CAR, respectively. BSP Circular No. 768 issued in September 2012 provides that eligible capital instruments issued as Lower Tier 2 capital under the conditions for eligibility as capital instruments pursuant to existing regulations shall continue to be recognised as qualifying capital until the BSP issues further guidelines. In March 2016, the Monetary Board announced that it had approved the LCR framework which requires universal and commercial banks to hold sufficient HQLAs that can be easily converted into cash to service liquidity requirements over a 30-day stress period. The approval of the LCR framework by the Monetary Board provides for an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements within 2016. See "— *Philippine banks face regulatory pressure to comply with new capital standards*".

The press release of the BCBS dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" included an additional Basel III requirement (the **Point of Non-Viability Requirement**) as follows:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

(a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;

(b) a peer group review confirms that the jurisdiction conforms with clause (a); and

it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph."

The release also states as follows: "The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority" (for the purposes of this Offering Circular, each a **Non-Viability Event**).

The BSP has provided guidance to the Philippine banks regarding the minimum capital ratios under the Basel III regime and the terms and conditions of Basel III compliant capital through the issuance of BSP Circular No. 781, Series of 2013, concerning the Basel III Implementing Guidelines on Minimum Capital Requirements. The Implementing Guidelines states that all instruments (other than common equity) qualified as Additional Tier 1 and Tier 2 capital must have contractual terms and conditions requiring them to be written-off or converted into common equity upon occurrence of a specified trigger event. The trigger event occurs when a bank is considered nonviable as determined by the BSP.

Specifically, capital instruments should be written off or converted into Common Equity Tier 1 at the earlier of:

(a) The occurrence of a deviation from a certain level of Common Equity Tier 1 ratio, specifically, in case the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP;

(b) The inability of the bank to continued business; or

(c) any other event as may be determined by the BSP.

There is currently no indication that the BSP is considering having laws in place that would allow it or any other relevant authority the right to impose losses on the capital instruments without there being specific terms and conditions in the capital instruments that would allow it to do so (**Statutory Loss Absorption**).

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.

Payments under the Notes may become subject to U.S. Foreign Account Tax Compliance Withholding.

The FATCA imposes a reporting regime and, potentially, a 30% withholding tax. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may in the future affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Bank's control.

The occurrence of a Non-Viability Event is dependent on a determination by the BSP (a) that a deviation from a certain level of Common Equity Tier 1 ratio occurred, specifically, in case the Common Equity Tier 1 ratio falls to 7.25% or below or as may be determined by the BSP; (b) inability of the bank to continued business; or (c) any other event as may be determined by the BSP. As a result, the BSP may require or may cause a write-off in circumstances that are beyond the control of the Bank and the Group and with which neither the Bank nor the Group agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur.

Based on the existing Basel III Guidelines, there is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the BCBS.

Risks Relating to Renminbi-denominated Notes

Notes denominated in Renminbi (**Renminbi Notes**) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outward from the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover all provinces and cities in the PRC and to make Renminbi trade and other current account settlement available in all countries worldwide. Subject to limited exceptions, there is currently no specific PRC regulation on the remittance of Renminbi into the PRC for settlement of capital account. Foreign investors may only remit offshore Renminbi into the PRC for capital account purposes such as shareholders' loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case by case basis.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outward from the PRC.

Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules. In the event that funds cannot be repatriated outside the PRC in Renminbi, the Bank will need to source Renminbi offshore to finance its obligations under the Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

Holders of beneficial interests in the Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement mechanism for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Bank's ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong Government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and designated business customers. The People's Bank of China (**PBOC**) has also established a Renminbi clearing and settlement mechanism for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the **Settlement Agreement**) between the PBOC and Bank of China (Hong Kong) Limited as the RMB clearing bank (the **RMB Clearing Bank**) to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there is no longer any restriction on the transfer of Renminbi funds between different accounts in Hong Kong. On 2 April 2013, in line with the Free Trade Agreement between China and Singapore, the PBOC and the Monetary Authority of Singapore entered into a Memorandum of Understanding allowing Renminbi business to be conducted in Singapore. Under this arrangement, banks in Singapore are allowed to open Renminbi accounts for all corporations, and may provide them with Renminbi-denominated business services. PBOC has appointed the Industrial & Commercial Bank of China Singapore Branch (**ICBC Singapore**) as the RMB clearing bank for Singapore to provide clearing and settlement to participating banks. ICBC Singapore commenced its Renminbi clearing services on 27 May 2013, clearing RMB1.6 billion worth of transactions on that day.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As of 31 May 2013, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB698,481 million (source: Hong Kong Monetary Authority Monthly Statistical Bulletin). Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position, and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC only for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement, for Hong Kong residents of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

On 14 June 2012, the HKMA introduced a facility for providing Renminbi liquidity to authorised institutions participating in RMB business (**Participating AIs**) in Hong Kong. The facility will make use of the currency swap arrangement between the PBOC and the HKMA. With effect from 15 June 2012, the HKMA will, in response to requests from individual Participating Als, provide RMB term funds to the Participating Als against eligible collateral acceptable to the HKMA. The facility is intended to address short-term RMB liquidity tightness which may arise from time to time, for example due to capital market activities or sudden need for RMB liquidity by the Participating AIs' overseas bank customers.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that no new PRC regulations will be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. Subject to the applicable Pricing Supplement and Terms and Conditions, all payments of interest and principal with respect to Renminbi Notes will be made in Renminbi. As a result, the value of these Renminbi payments in US dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the

US dollar or other foreign currencies, the value of investment in US dollar or other applicable foreign currency terms will decline.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by global certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing Euroclear and/or Clearstream rules and procedures, or (ii) when Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

DESCRIPTION OF THE BANK

Overview

BDO Unibank, Inc. (the **Bank**) is a universal bank which provides a wide range of corporate and retail banking services. These services include traditional loan and deposit products, as well as treasury, trust banking, investment banking, private banking, cash management, leasing and finance, remittance, insurance, retail cash cards and credit card services. The Bank is the product of a merger between Banco de Oro Universal Bank, Inc. (**BDO**) and Equitable PCI Bank, Inc. (**EPCIB**), which took effect on May 31, 2007. As of 30 June 2016, according to the statements of condition submitted by banks to the BSP, the Bank ranked as the number one bank in the Philippines in terms of total deposits, gross customer loans, capital, total assets and total trust funds under management. The Bank's consolidated total assets were ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as at 31 December 2013, 2014 and 2015, respectively, and ₱2.2 trillion as at 30 June 2016 while total capital funds stood at ₱164.4 billion, ₱179.7 billion, ₱199.6 billion and ₱211.1 billion, respectively.

The Bank's strategic focus is to enhance its position as a leading full-service bank in the Philippines and to continue its focus on growing its business and improving operational efficiency. The Bank's principal markets are currently the top-tier corporate market, the middle-market banking segment (consisting of medium-sized corporations and small- and medium-sized enterprises (**SMEs**)) and the retail/consumer market. The Bank's customers are based primarily in the Philippines, and include large multinational corporations with local operations. The Bank has experienced significant growth over the last few years arising from offering new products and services and as a result of the recent mergers and acquisitions.

As of 30 June 2016, the Bank had a network of 1,051 operating domestic branches (including 108 ONB branches) and one foreign branch (in Hong Kong) with 130 more domestic branch licenses for deployment. Its network includes 28 overseas remittance offices and 3,372 automated teller machines (**ATMs**) (including 184 ONB ATMs) and 245 cash accept machines (**CAMs**). As of 30 June, 2016, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.6% of the Bank's issued common shares.

As of 30 June 2016 the Bank had a market capitalisation on the PSE of approximately ₱408.3 billion. The Bank's consolidated Tier 1 capital adequacy ratio, tangible equity-to-assets ratio and total capital adequacy ratio were 11.6%, 9.8% and 13.1%, respectively, as of 30 June 2016.

History

The Bank, formerly known as Acme Savings Bank, was acquired by the SM Group in August 1976. The SM Group is one of the largest conglomerates in the Philippines, with substantial interests in financial services, real estate development, and tourism and entertainment, founded around its core business in commercial centres and retailing.

Until it was granted full universal bank status on 5 August 1996, the Bank's main business was providing traditional loan and deposit banking services to the middle-market segment, including corporate suppliers of ShoeMart, Inc., a large department store chain operated by the SM Group. Since then, the Bank has shifted its focus from servicing the suppliers, tenants and other merchants that do business with the SM Group (generally referred to as the **SM Network**), to expanding and diversifying its client base by offering a full range of commercial banking products and services. At the same time, the Bank believes that its relationship with the SM Group has been, and will continue to be, a valuable resource in expanding its customer base to large corporate clients and retail customers.

Mergers and Acquisitions

The Bank has grown through a series of mergers and acquisitions as follows:

- On 15 June 2001, the Bank merged with Dao Heng Bank Philippines, Inc. (**DHBI**) and acquired DHBI's existing customers and 15 branch licenses.

- In October 2002, the Bank assumed 1st e-Bank Corporation's (**1st e-Bank**) ₱10 billion of deposits and other liabilities in exchange for certain assets including 60 branch licenses.
- On 29 August 2003, the Bank acquired Banco Santander Philippines, Inc. (**BSPI**) while BDO Capital acquired Santander Investment Securities Philippines, Inc. from Santander Central Hispano, S.A. BSPI was renamed BDO Private Bank, Inc. (**BDO Private Bank**) and provided the Bank with an immediate presence in the private banking sector.
- On 19 December 2005, the Bank acquired United Overseas Bank Philippines' (**UOBP**) branch banking business and obtained 66 branch licenses.
- On 31 May 2007, the Bank merged with Equitable PCI Bank, Inc. with the Bank as the surviving entity. The merged bank was renamed Banco de Oro – EPCI, Inc. and on 6 February 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.
- On 30 October 2007, the Bank acquired American Express Bank Philippines, Inc. (**AEBP**), gaining access to American Express Philippines' U.S. dollar and Peso credit card portfolios as well as the consumer banking services of American Express.
- On 24 August 2009, the Bank purchased 98.81% of the issued and outstanding common shares and 100% of the preferred capital stock of GE Money Bank (**GEMB**), thereby consolidating GEMB's business including 31 branch licenses into the Bank. GEMB was retained as a separate legal entity and adopted the name BDO Elite Savings Bank, Inc. when it amended its Articles of Incorporation with the Philippine SEC on 12 August 2010.
- In July 2012, the Bank completed its acquisition of the banking business of the Rural Bank of San Juan, a rural bank with 30 additional branch licenses.
- On 25 March 2014, BDO completed the acquisition of Citibank Savings, Inc. (now Banco de Oro Savings Bank, Inc.), a savings bank with ten active branches and whose branches were converted on 24 August 2014.
- On 2 June 2014, BDO acquired the trust business of Deutsche Bank AG's Manila branch comprising trust, fiduciary and investment management activities.
- On 8 August 2014, the Bank acquired the banking business of The Real Bank (A Thrift Bank), Inc., a thrift bank with a deposit base of ₱6.9 billion and 24 branches operating in Metro Manila and Luzon, to transfer the latter's assets and liabilities to the Bank.
- On 23 December 2014, the Bank disclosed that it entered into an agreement to acquire One Network Bank, Inc., (**ONB**) a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. The Bangko Sentral ng Pilipinas, in its letter dated 27 March 2015 to BDO Unibank, Inc., approved on 16 March 2015 BDO's acquisition of ONB. On 20 July 2015, the Bank successfully completed its acquisition of ONB.
- On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle GPHC, the parent firm of life insurer Generali Pilipinas Life Assurance Company (**GPLAC**) and non-life insurer Generali Pilipinas Insurance Company (**GPIC**). In the context of the agreement and subject to regulatory approvals, the Bank will assume full control of GPHC and GPLAC, which will be renamed BDO Life Assurance Holdings, Corp. and BDO Life Assurance Company Inc., respectively, subject to closing conditions and the requisite corporate and regulatory approvals. On 30 June 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp., and BDO Life Assurance Company Inc., respectively.

Recent Offers and Capital Raising Transactions

On 4 July 2012, the Bank closed an approximate US$1 billion rights offering of common shares. The net proceeds of the rights offering increased the Bank's common equity Tier 1 capital and generally strengthened the Bank's capital adequacy. The Bank further plans to use the proceeds to support growth initiatives such as extension of its credit and balance sheet, development of new business segments, products and services, and to fund potential inorganic growth opportunities.

On 15 October 2012, the Bank issued ₱5 billion in long term negotiable certificates of deposit (**LTNCDs**), as part of the Bank's efforts to support medium-term growth objectives and to lengthen the maturity of its funding sources. The LTNCDs, which will mature on 15 October 2019, were priced at 5.25%

On 10 December 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on 2 October 2014. The Tier 2 notes were priced at 5.1875% per annum and will mature on 10 March 2025.

On 6 April 2015, the Bank issued ₱7.5 billion of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on 6 October 2020.

On 6 August 2015, the Bank announced that it entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility is intended to be utilised for the refinancing of an existing term loan and for general banking and corporate purposes.

In August 2016, the Bank announced that the Japan Bank for International Cooperation approved a US$50 million "Green" facility for the Bank to relend to environment related undertakings focusing primarily on renewable energy in the Philippines. The "Green" facility intends to bankroll, under the Global action for Reconciling Economic growth and Environmental preservation (GREEN) operations, environment-related projects, which contribute to lessening greenhouse gas emissions.

Other Recent Developments

On 21 March 2014, the Bank exercised its early redemption option and redeemed its ₱3.0 billion unsecured subordinated notes eligible as Tier 2 capital due 2019 which were issued on 20 March 2009.

On 29 June 2015, the Bank announced that it has signed a definitive agreement with Nomura Holdings, Inc. (**Nomura**) for a joint investment in PCIB Securities, Inc. (**PCIB Securities**), a securities dealer and broker wholly-owned by BDO. Under the terms of the agreement, BDO will hold a 51% stake and Nomura will own 49%. Nomura's investment (through Nomura's wholly-owned subsidiary, Nomura Asia Investment (Singapore) Pte. Ltd.) in PCIB Securities was successfully completed in January 2016. The joint venture, which will initially provide online trading services for local stocks to individual investors, was renamed BDO Nomura Securities, Inc.

On 22 July 2015, stockholders of BDO Capital approved the merger of BDO Capital with BDO Elite Savings Bank, Inc. (**BDO Elite**) and Banco De Oro Savings Bank, Inc. (**Banco De Oro Savings**), and with BDO Capital as the surviving entity. On 22 July 2015, stockholders of Banco De Oro Savings approved the surrender to the BSP of its banking and trust licenses. An application for the approval to surrender Banco De Oro Savings' licenses and the notation of the merger was filed with the BSP. On 20 August 2015, BDO Elite secured the BSP approval to surrender its banking and trust licenses in view of the cessation of its banking business. The merger application was filed with the Philippine Securities and Exchange Commission. On 30 June 2016, the SEC approved the merger of BDO Elite and Banco De Oro Savings with BDO Capital.

In November 2015, the Bank announced that it entered into a memorandum of understanding with FIDEA Holdings Co., Ltd. (**FIDEA**), a joint holding company between major Japanese regional banks The Shonai Bak, Ltd. (Yamagata prefecture) and The Hokuto Bank, Ltd. (Akita prefecture). The two regional banks partnered with the Bank under the Japan Bank for International Cooperation in 2013. The partnership with FIDEA is expected to provide the Bank with adequate coverage in Japan's northern region (Tohoku), specifically in Akita, Yamagata and Miyagi prefecture where a majority of primary industries (agriculture, fishing, forestry and mining). The Bank expects to provide its Japanese clients with financial and non-financial advisory services, and other products and services should they decide to set up shop in the Philippines. In June 2016 and May 2016, Aozora Bank Ltd. and Shizuoka Bank, Ltd. also entered into similar memoranda of understanding with the Bank. As of 30 June 2016, ten Japanese banks have partnered with the Bank.

On 28 January 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation (**MMPC**), Sojitz Corporation (**SJC**) and JACCS Co., Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On 1 June 2016, the Bank announced that the Philippine Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation (**MAFSC**) as a financing company. MAFSC is the joint venture company between BDO Leasing and Finance, Inc. (**BDOLF**), a subsidiary of the Bank, with MMPC, SJC and JACCS Co. Ltd. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. BDOLF owns 40% equity interest in MAFSC. MAFSC is currently in its pre-operational stage.

On 14 June 2016, the Bank signed an agreement to acquire SB Cards Corp.'s (**SB Cards**) exclusive rights as issuer and acquirer of Diners Club International credit cards in the Philippines. The acquisition, which includes SB Cards' existing Diners Club portfolio and its cardholder base, was completed on 30 September 2016.

On 30 June, 2016, the Bank announced that TPG Growth, the middle market and growth equity investment platform of TPG, will acquire a 40% stake in ONB with the Bank retaining approximately 60% ownership. The transaction is subject to closing conditions and regulatory approvals.

On 27 June 2015, the Bank's Board of Directors authorised the investment by BDO Capital of 3,273,000 shares in CBN Grupo. Upon completion of such investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The BSP approved the investment in March 2016. The transaction will be completed following compliance with regulatory notices of the investment, which is expected to be in October 2016.

On 26 September 2016, the Bank announced the approval by its Board of Directors to raise ₱60.0 billion (approximately US$1.25 billion) in additional core capital through a stock rights offer.

Competitive Strengths

The Bank believes it has the following competitive advantages in relation to its competitors:

Leading brand name and banking franchise in the Philippines

The Bank believes that its combination of scale, reach, business mix, product offerings and brand recognition has made it a leading financial institution in the Philippines. According to statements of condition submitted by banks to the BSP, as of 30 June 2016, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country. The Bank believes that all of these factors have helped to develop the BDO brand, which covers the Bank's entire range of banking products and financial services under a single brand name, as one of the most well-known in the domestic market. The Bank's premier branding and market dominance are also reflected in leading market shares across most business segments including private banking, investment banking, remittances and credit cards. The Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. See "*– Subsidiaries and Affiliates*". The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products. For the year ended 31 December 2015, the Bank's other operating income, mainly comprising non-interest income, increased by 8.3% to ₱31.9 billion from ₱29.5 billion in the year ended 31 December 2014. For the six months ended 30 June 2016, the Bank's other operating income increased by 34.6% to ₱22.1 billion, from ₱16.4 billion for the six months ended 30 June 2015. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 80% of its income is from recurring sources, rendering it less susceptible to market and industry volatility.

Customer-centric culture complemented by strategic distribution platform

The Bank believes it has instilled a "customer-centric culture" across its branches and personnel, embodied in its "We Find Ways" philosophy which it believes has elevated the customer convenience it offers to a higher level. For example, the Bank is the first Philippine bank to offer weekend operating schedules and all of its branches operate on extended banking hours.

To efficiently serve its customers, the Bank's branch network stretches to cover all major cities in the Philippines, with the Bank often establishing multiple branches in general areas it has identified to have greater potential for business. The Bank believes that this extensive domestic as well as growing global distribution network allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of 30 June 2016, the Bank's network consists of 1,051 domestic branches (including 108 ONB branches), 3,372 ATMs (including 184 ONB ATMs), 245 CAMs, one full service branch in Hong Kong, as well as 28 remittance offices across Asia, North America and Europe. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base despite facing certain branch expansion restrictions from the BSP. Its low cost deposit base (comprising demand and savings deposits) increased from ₱774.8 billion as of 31 December 2013 to ₱958.8 billion as of 31 December 2014, representing a growth of 23.7%. As of 31 December 2015, its low cost deposit base further grew to ₱1,137.7 billion and as of 30 June 2016, stood at ₱1,230.2 billion. As of 30 June 2016, 31 December 2015 and 2014, 69.4%, 68.4% and 64.2%, respectively, of the Bank's total deposit base comprised of low costs deposits compared to 57.6% as of 31 December 2013. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilise its branches to expand its loan portfolio, mainly through aggressive cross-selling of products and customer referrals across branches.

Scalable infrastructure platform for sustained growth

The Bank believes it has established a solid and scalable operating platform that allows it to implement its growth and expansion objectives. The Bank has achieved this mainly by making key investments in bank premises to support its expanding branch network, enhancing its business development capability, as well as upgrading its operations, processes, and information technology (**IT**) applications to accommodate growing business volumes. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification and efficiency of service delivery.

Strong and experienced management team

The Bank believes it has assembled a strong management team, with significant experience and proven track records in Philippine banking. The Bank's senior executive officers (comprising officers from the senior vice-president level and above who head business or support groups) have an average of over 20 years of experience in the banking and financial services sectors, primarily with certain of the Philippines' largest and most well-known banks. In addition, the Bank's executives and officers have a broad range of experience in their respective areas of banking and finance. The Bank believes that its management team has successfully and continually improved the Bank's operating and business fundamentals, contributing substantially to the Bank's organic and acquisitive growth and expansion, and provides the Bank with a significant competitive advantage.

Synergies with controlling shareholder group

The Bank believes it has and continues to leverage its position as the main banking arm of the SM Group, which is the Philippines' largest retail conglomerate and mall operator. As a result of this relationship, the Bank enjoys synergies with the SM network of companies, such as new business opportunities for joint project development, cross-selling of products to customers and shared marketing networks; knowledge and expertise with respect to key economic sectors and business industries such as retail, middle market and real estate; and strategic locations of the Bank's branches and ATMs in SM Group malls located across the Philippines. The Bank also believes that its business segments and product lines effectively support the business objectives of other SM Group companies in the areas of loans, other types of financing and portfolio investments.

Business Strategies

The Bank continues to build on its strong business franchise to maintain leadership positions across most business lines, as well as further strengthen its capabilities to support future growth and actively respond to strategic opportunities and market challenges. Over the long-term, the Bank aims to be the preferred bank in every market it serves and create shareholder value through superior returns. The key elements of the Bank's strategy are as follows:

Diversified and sustainable earnings stream

The Bank seeks to continue to grow its diversified and sustainable earnings stream generated from its core lending and deposit-generating activities, accrual and trading income from its investment portfolio and fee income from service-based businesses.

The Bank will continue to pursue focused loan growth to achieve a more balanced loan portfolio and more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. In addition, to minimise the volatility of the Bank's income sources, the Bank has gradually built its non-interest earnings by generating increased income from its fee-generating services including, among others, asset/wealth management, electronic banking, insurance, credit cards and investment banking. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximise both accrual and trading income.

Continue to expand distribution network to improve access to customers and reduce funding costs

The Bank plans to continue to build its branch network across the Philippines, to further improve access to its customers and more efficiently serve their needs. Through its expanding branch network, including in provincial areas, the Bank intends to drive lending and deposit taking initiatives, particularly in provincial areas, through its offerings of one-stop banking services where customers can avail of a host of lending, deposit, investment products, and other financial services including access to a wide range of loan products, foreign exchange, insurance and trust services, in addition to more traditional deposit services.

Prudent balance sheet management

The Bank will continue to implement a prudent and effective risk management culture while also seeking to maintain a strong capital position, high asset quality and a healthy balance sheet. The Bank has adopted a conservative provisioning strategy even as its asset quality has remained stable despite steady loan growth. The Bank believes this approach will insulate the Bank against any downturns in the financial sector or in the domestic or global economies. In addition, the Bank intends to actively reduce its non-performing assets through various methods that include retail sales and joint property development, strengthening of its broker / employee network, and attractive payment and pricing terms.

Further develop operating systems, branch infrastructure and advertising efforts

The Bank has made, and intends to continue to make, strategic investments in increasing productive capacity to maintain its strong and modern operating infrastructure, allowing the Bank to more easily accommodate future growth, ensure business continuity and enhance efficiency. The Bank expects these investments to generally be in the areas of office and network expansion, IT, operations and risk management.

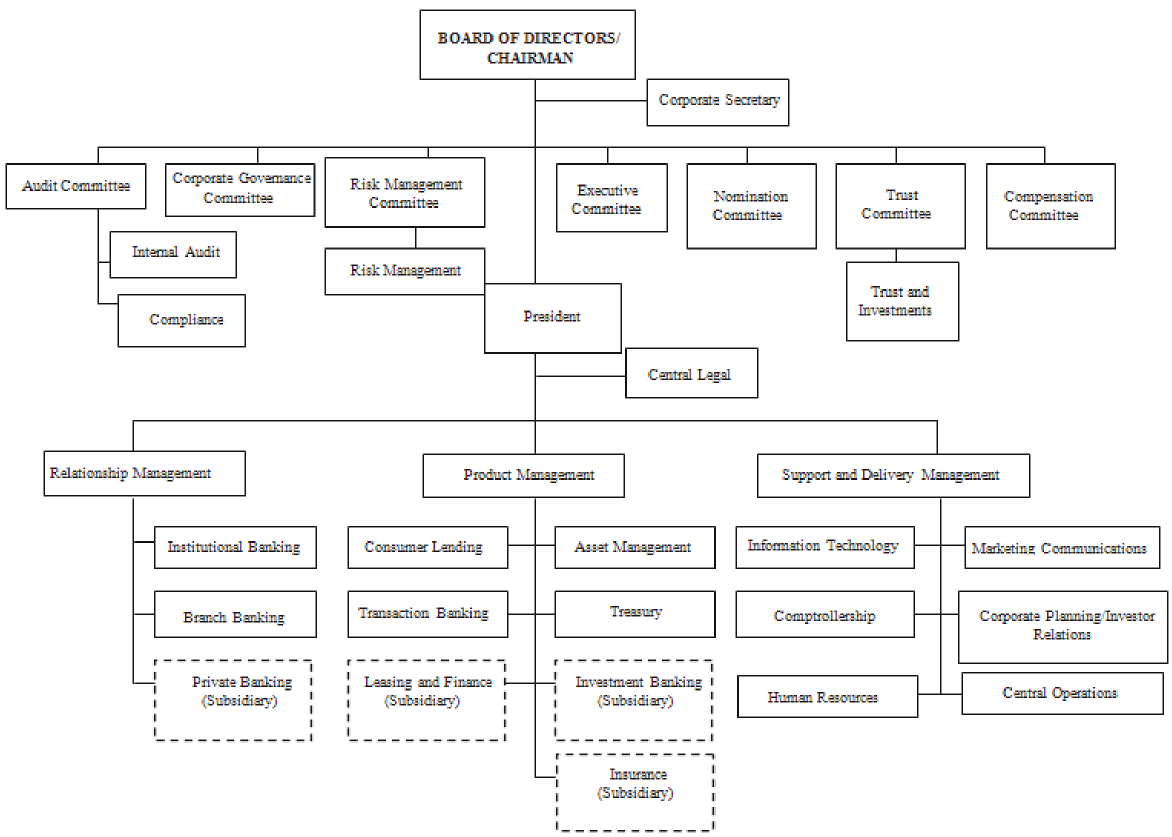
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and modernisation upgrades to corporate offices consistent with the Bank's enhanced image and branding.

Complement organic growth with mergers/acquisitions

To complement its organic growth and branch expansion, the Bank intends to consider opportunities for strategic mergers and acquisitions as they arise to further expand its market coverage and tap emerging and potential businesses. Due to certain BSP regulations and restrictions on grants of new branching licenses, the Bank intends to focus on potential acquisitions on an opportunistic basis as an alternative means of expanding its coverage.

Organisational Structure

The following chart sets forth the Bank's simplified corporate structure, organised by its principal activities as of 30 June 2016.



Business of the Bank

The Bank is organised into three main groups: relationship management, product management, and support and delivery management. Members of each business group work together to provide the Bank's customers with a full suite of services. The Bank believes that giving its larger customers multiple points of contact within the Bank enhances its ability to respond promptly and appropriately to its customer demands and also allows the Bank to institutionalise its more important customer relationships. The following is a description of each of the Bank's business groups and their respective services.

Relationship Management

Relationship Management is responsible for managing client relationships and expanding clients' businesses with the Bank. Included in this group are Institutional Banking, covering large corporations, financial institutions, middle-market, small business accounts and structured trade finance; Branch Banking, covering the domestic branch network as well as Hong Kong branch operations; and Private Banking through BDO Private Bank.

Institutional Banking Group

The Bank's principal lending business activities are undertaken through the Institutional Banking Group, which is responsible for managing relationships with clients and servicing their loans and other banking requirements. The Institutional Banking Group has the primary responsibility for managing the corporate loan portfolio of the Bank, which accounts for approximately 77.0% of the total loan book as of 30 June 2016, amounting to ₱692.5 billion, ₱838.3 billion, ₱985.7 billion and ₱1.1 trillion as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively.

A wide range of loan products and services are available to institutional customers, including term loans, revolving credit lines and foreign currency loans (denominated primarily in U.S. dollars). The Bank also offers trade finance-related products and services which include letters of credit, export advances, commercial bill discounting, advising exporters on documentary credits, negotiating bills under documentary credits, trust receipts, inventory financing, and bills collection. Institutional Banking also provides omnibus credit lines for its most significant corporate customers, allowing the customer to draw on such credit lines in the form of short-term loans or to utilise such credit lines for trade financing or other forms of credit.

In addition to corporate and trade-related loans, Institutional Banking also offers other products and services such as investment banking, trust and cash management solutions. It also handles sovereign and specialised lending, which includes developmental funds from international credit agencies such as the World Bank that are channeled to borrowers through Government financing initiatives.

The Institutional Banking Group is composed of Corporate Banking (**Corbank**), Commercial Banking (**Combank**), Financial Institutions and Wholesale Lending and International Desks (**WLID**).

A table of the Institutional Banking Group's loans by customer type appears below.

	As of 3l December		As of 30 June
	2014	2015	2016
	(audited) (in ₱ millions)		(unaudited) (in ₱millions)
Institutional Banking Loans by Customer Type			
Corporate	**510,671**	**593,446**	**645,798**
Corporate	481,143	563,191	613,917
Financial Institutions	8,924	6,760	5,385
Wholesale/International Desks	20,604	23,495	26,496
Commercial	**327,627**	**392,302**	**408,179**
Total	**838,298**	**985,748**	**1,053,977**

Corporate Banking

Corbank services approximately 1,500 of the largest corporate and financial institutions in the Philippines. Most of Corbank's corporate clients are based in the Philippines and are engaged in the manufacturing, financial services, wholesale and retail trade or real estate sectors, including several large multinational corporate clients.

Corbank provides a wide range of products and services to its customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance, and other cash management products and services. Corbank also offers omnibus credit lines for its large corporate customers, allowing customers to draw on such credit lines in the form of a short-term loan or to utilise for trade financing or other forms of credit.

As of 31 December 2013, 2014 and 2015, accounts of large corporate customers represented approximately 48.1%, 46.9% and 46.4%, respectively, of the Bank's total loan portfolio. As of 30 June 2016, corporate loans grew by 21.5% year-on-year to ₱645.8 billion, representing 47.2% of the Bank's total loan portfolio of ₱1,368.2 billion. Almost all of Corbank's corporate lending is for projects in the Philippines and most of Corbank's corporate lending is undertaken on a non-syndicated basis.

Commercial Banking

Combank primarily serves the middle-market companies which are among the next 5,000 largest in the Philippines in terms of revenues, as well as SMEs. Most of the Bank's commercial customers are engaged in the manufacturing, retail and trade sectors.

As of 31 December 2013, 2014 and 2015, Combank's lending to the middle-market segment accounted for approximately 27.9%, 30.1% and 30.7%, respectively, of the Bank's total loan portfolio. As of 30 June 2016 the Bank's commercial loan portfolio totaled ₱408.2 billion, representing 29.8% of the Bank's total loan portfolio.

Financial Institutions

Through Financial Institutions, the Bank offers correspondent banking services to its financial institutions clients through a network of over 500 international correspondent banks. These correspondent banking functions include facilitating documentary credits, offering inter-bank credit facilities and managing Philippine fund transfers processes. Corbank's correspondent banking unit is also able to undertake credit evaluation of proposed counterparties, market the Bank's products to financial institution clients and assess the benefits of various product proposals from correspondent providers.

Wholesale Lending and International Desks

The Bank's WLID business was organised to capitalise on opportunities present in the growing regional and global financing arena. It develops relationships with Japanese, Mainland Chinese, Taiwanese, Singaporean, Korean and other Asian companies, as well as North American and European commercial interests in the Philippines. Services include project and trade finance, factoring, leasing, cash management, trust, investment advisory, foreign exchange, insurance, and other ancillary services.

WLID provides cross-border finance supported by export credit agencies, rated export-import banks and other foreign banks from member countries of the Organisation for Economic Development and Cooperation, and multilateral organisations. WLID provides its eligible clientele wholesale funds available from Government Financial Institutions for specialised financing purposes.

Branch Banking

The Bank's branch network is the primary means of offering deposit services to customers, including CASA and time deposits in Pesos, U.S. dollars and other foreign currencies. The Bank's principal depositors are individuals in the Philippines. As of 31 December 2013, 2014, 2015 and 30 June 2016, total deposits were ₱1,345.3 billion, ₱1,492.3 billion, ₱1,663.9 billion and ₱1,771.6 billion, respectively, with Peso deposits representing approximately 82.4%, 80.4%, 81.0% and 80.8%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. The Bank currently has approximately 7.5 million customers. As of 30 June 2016, the Bank's branch network comprised of 1,051 domestic branches (including 108 ONB branches) and one foreign branch, with 130 more branch licenses available for redeployment. Each of the Bank's branches is connected and networked to the Bank's IT systems and infrastructure and offers full banking services. The Bank is the first bank in the Philippines to offer extended hours of operations at all of its branches, including weekend hours. The Bank believes its longer banking hours allows it to meet the banking needs of its customers more efficiently.

The Bank provides 24-hour banking services through its 3,372 ATM facilities (including 184 ONB ATMs) which are located in branches and at off-site locations, such as shopping malls. Customers are given access to the ATM facilities through BDO International ATM cards, which are issued to check and savings account holders. The Bank is a member of the Expressnet and Megalink ATM consortia, allowing customers to use ATM terminals operated by other banks in the consortia. Clients can also use ATM terminals worldwide that are part of the Cirrus-Maestro network. Branch Banking manages the entire branch network of the Bank. Branch Banking monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Each branch is subject to monthly spot audits, as well as a more comprehensive annual audit. Each of the Bank's branches has electronic security systems and armed guards. All of these services are provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorised limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

The Bank was recognised by The Asian Banker as the Best Retail Bank in the Philippines during its International Excellence in Retail Financial Services 2016 Awards. In 2016, the Bank was also recognised as the Best Bank in the Philippines by Alpha Southeast Asia for the seventh time.

Hong Kong Branch Operations

The Bank has a full service branch in Hong Kong that caters to the needs of the overseas Filipinos and the local community. It currently offers trade-related services for Philippine companies doing business with Hong Kong- and mainland China-based companies. The branch plans to expand its services by providing private banking services to Filipino high net worth individuals, cross-border retail services to Philippine executives in Hong Kong and servicing the deposit needs of the Fujian community. In early 2008, the branch was moved to a street-level location along Connaught Road in Central, Hong Kong to enhance visibility and improve accessibility.

Private Banking

The Bank provides investment, financial, and estate advisory services to a niche market of high net worth individuals, as well as corporate and institutional clients through its wholly-owned subsidiary, BDO Private Bank, Inc. BDO Private Bank Inc.'s open architecture platform allows it to provide bespoke or custom-made structures to address clients' specific financial needs.

Product Management

Product Management is responsible for managing the different product businesses offered to clients. Product Management is composed of Consumer Lending, which is responsible for consumer products and services including the Bank's credit card business; Transaction Banking, covering cash management, electronic payments and settlements, and remittances; Treasury; Asset Management (Properties); Insurance Brokerage; and Leasing and Finance. Trust Banking is also functionally grouped under Product Management.

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As of 31 December 2013, 2014 and 2015, consumer-related loans comprised approximately 18.9%, 18.1% and 19.9%, respectively, of the Bank's total loans. As of 31 December 2015, BDO's consumer loans increased by 29.4% from ₱196.8 billion as of 31 December 2014 to ₱254.6 billion, contributing 19.9% to BDO's total loan portfolio. As of 30 June 2016, the Bank's consumer loans increased by 28.7% to ₱275.4 billion from ₱214.0 billion as of 30 June 2015, contributing 20.1% of the Bank's total loan portfolio.

A table showing the Bank's consumer loans by main type is found below.

	As of 3l December			As of 30 June
	2013	2014	2015	2016
		(audited) (in ₱ millions)		(unaudited) (in ₱millions)
Consumer Loans by Type				
Credit Cards	34,068	35,985	39,921	40,890
Real Estate Mortgages	91,475	106,794	130,749	141,733
Auto Loans	38,700	44,737	53,214	60,548
Personal Loans	933	803	18,280	19,529
Business Loans	6,988	8,447	12,473	12,681
Total	172,164	196,766	254,637	275,381

Credit Cards

The Bank initially operated its credit card business through a subsidiary, BDO Card Corporation. During the merger with EPCIB in 2007, BDO also acquired Equitable Card Network (**ECN**), which was EPCIB's vehicle for its card business. The acquisition of the ECN portfolio added strategic value to the Bank's existing credit card business. Aside from its significant number of cardholders, the ECN portfolio provided an extensive merchant base, the largest credit card merchant acquirer in the Philippines. The acquisition of the American Express Bank Philippines, Inc.'s U.S. dollar and Peso card portfolios in 2007 further strengthened its position in the credit card market. The consolidation of these businesses has led to enhanced efficiency, substantial synergies and cost savings and has contributed significantly to the Bank's strategic goal of expanding its share of the consumer lending market.

The Bank's credit card business remains the industry's leading card issuer and largest merchant acquirer. As of 31 December 2013, 2014, 2015 and 30 June 2016, the Bank had combined cards-in-force of 1,699,247, 1,579,504, 1,529,711 and 1,596,171, respectively, and had a receivable portfolio of ₱34.1 billion, ₱36.0 billion, ₱39.9 billion and ₱40.9 billion, respectively.

The Bank currently offers American Express Centurion cards, American Express International Dollar cards and Corporate cards, American Express Cathay Pacific cards, American Express Peso Platinum, Platinum Mastercard, Platinum Visa, Titanium Mastercard, Union Pay Diamond and Gold cards, BDO Shopmore, and Gold cards under the brands Mastercard, VISA and JCB. Interest charged on outstanding balances ranges between 2.5% and 3.5% per month. Due to increased competition in the market, annual fees are often waived for the first year for new credit cardholders.

BDO has also commenced to roll out EMV chip-embedded BDO ATM debit cards and credit cards to comply with the directive of the BSP for banking institutions to shift from magnetic stripe technology to EMV chip-enabled cards.

Real Estate Mortgages

The Bank offers home mortgage loans to individuals for home acquisition, construction, improvement and refinancing of their property. Consumer lending tailors loan terms, which offer customers competitive rates and more flexibility regarding their repayments. Home mortgage loans are typically for amounts between ₱500,000 and ₱5.0 million, with maturities of up to 25 years. These are typically payable in monthly amortisations with interest rates that are repriced periodically based on prevailing market rates, although borrowers also have fixed rate options.

End-buyer tie-ups with reputable real estate developers largely contributed to the Bank's total home mortgage loan portfolio of ₱91.5 billion, ₱106.8 billion, ₱130.7 billion and ₱141.7 billion, respectively, as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell (**CTS**) Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the Bank or the Bank may commence foreclosure proceedings. It generally takes between six and 12 months to foreclose mortgaged collateral, which is then typically sold by public auction or through brokers on behalf of the Bank. However, the individual mortgagor or any of its creditors having a lien over the collateral continues to have the right to repurchase such collateral within one year of completing foreclosure in return for payment of principal and interest owed plus the Bank's out-of-pocket expenses.

Auto Loans

The Bank provides auto financing to individuals for the acquisition of mainly new cars, buses and other types of vehicles. The Bank's retail auto loans are typically between ₱700,000 and ₱1.0 million and for 12 to 60 month terms, with the average tenor being three years. The applicable interest rate is generally fixed with amortising repayment schedules over the term of the loan.

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As of 31 December 2013, 2014, 2015 and 30 June 2016, the Bank's auto loan portfolio stood at ₱38.7 billion, ₱44.7 billion, ₱53.2 billion and ₱60.5 billion, respectively.

The Bank aims to deliver to prospective auto and home buyers fast processing times, competitive rates, flexible payment terms and innovative loan products. The Bank's nationwide branch footprint enables it to efficiently serve its customers.

Personal Loans

The Bank offers unsecured personal loans in amounts from ₱10,000 to ₱3,000,000, although the current average is at ₱859,000. Payment is made through a salary deduction for loans to employees of certain corporate customers and post-dated checks, over the counter payments, through electronic channels or automatic debit arrangements for all other customers.

The Bank offers two products: "SuperLite" Installment and salary loans. Introduced in April 2005, the SuperLite Installment is offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As of 31 December 2013, 2014, 2015 and 30 June 2016, the personal loan portfolio stood at ₱0.9 billion, ₱0.8 billion, ₱18.3 billion and ₱19.5 billion, respectively.

Treasury

Treasury has the primary responsibility of managing the Bank's sources of funding, and is tasked with ensuring that the Bank has adequate liquidity at all times. As part of this function, Treasury manages the Bank's domestic and foreign currency denominated investment instruments. Treasury actively engages in securities dealership, foreign exchange trading and derivatives transactions for its own account, as well as for the accounts of individual and institutional investors. Client requirements are serviced through the Treasury Marketing unit and the Bank's branch network. The customers of the Bank's Treasury Group include domestic and offshore banks, insurance companies, financial institutions, corporations, SMEs, high net worth individuals and retail companies.

The Bank believes it is among the top interbank dealers in foreign exchange and government securities in the Philippine financial markets. The Bank has received numerous awards and recognitions for its treasury activities, among these are the Best FX bank in the 2014 Country Awards for Achievement as awarded by FinanceAsia, as well as other awards for its FX activities from Global Finance and Alpha Southeast Asia.

Trading and Investment Securities

Treasury manages the securities trading and investment portfolios of the Bank. As an Accredited Government Securities Dealer, the Bank has been an active participant in the primary and secondary trading of Government securities. The Bank, as one of the largest participants in the Philippine foreign exchange market, is a fixing bank in the Philippine Dealing System.

As of 31 December 2013, 2014, 2015 and 30 June 2016, the Bank's net trading and investment securities stood at ₱227.9 billion, ₱221.5 billion, ₱225.8 billion and ₱267.3 billion, respectively, and accounted for 13.6%, 11.9%, 11.1% and 12.4%, respectively, of the Bank's total resources. For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, gross revenues from investment securities stood at ₱9.2 billion, ₱7.3 billion, ₱7.5 billion and ₱4.0 billion, respectively. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, these interest income levels represented 12.2%, 9.1%, 8.4% and 7.5%, respectively, of the Bank's total income during said periods. As of 31 December 2013, 2014, 2015 and 30 June 2016, approximately 65.2%, 65.2%, 61.8% and 63.5%, respectively, of the Bank's trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds.

The following table sets out, as of the dates indicated, information relating to the Bank's total investment portfolio:

	As of 3l December			As of 30 June
	2013	**2014**	**2015**	**2016**
		(audited)		**(unaudited)**
		(in ₱ millions)		**(in ₱millions)**
Investment Portfolio				
Government bonds	149,929	145,777	142,036	172,287
Other debt securities [(1)]	63,931	63,358	71,368	73,660
Total debt securities	213,860	209,135	213,404	245,947
Non-debt securities [(2)]	11,655	10,941	10,830	19,494
Derivative financial assets [(3)]	4,458	3,609	5,461	5,828
Total[(4)]	229,973	223,685	229,695	271,269

Notes:

(1) Other debt securities consist mostly of debt securities issued by corporates in the Philippines.

(2) Non-debt securities include shares of stocks and preferred shares.

(3) Derivative financial assets include forwards and swaps.

(4) Gross of allowance.

Derivatives

The Bank's derivatives license allows it to act as an end-user and as a dealer/broker of specific derivative instruments such as swaps, forwards and options.

Transaction Banking

The Bank provides a wide range of transaction-based services for both corporate and retail customers through Transaction Banking.

The Bank's goal is for Transaction Banking to build long-term value and consistent earnings growth through multi-product relationships with customers. The Bank expects this will translate into a low-cost and stable source of funds for the Bank that will improve the overall risk-revenue ratio of the Bank's portfolio.

Transaction Banking is divided into corporate and personal cash management teams to provide a focused market approach in terms of coverage, customised product offerings and service delivery.

Cash Management Services and Electronic Banking Services

Cash Management (Corporate)

The Bank offers high value-added cash management solutions to various market segments, namely: large corporations, financial institutions (including Government financial institutions and Government-owned and controlled corporations), middle market and SMEs. The cash management services offered by the Bank to these institutions include collections, payments, electronic banking services and retail payment services.

The Bank's corporate transactional banking customer base has grown from 77 in 2002 to over 11,000 corporate customers as of 30 June 2016. The Bank believes this growth in customers was the result of the Bank's innovative product offerings including modern payment services as well as solutions that cater to the customers' specific requirements, such as services for receiving payments from retails and wholesalers through online banking channels, facilitating cashless transactions at the point-of-sale (**POS**) terminals and providing safe and efficient services to monitor payments to the customer's suppliers and employees.

In recent years, the Banks' cash management department has been recognised with various awards including:

- The Asian Banker (Best Cash Management Bank for 2011, 2014 and 2015; The Leading Counterparty Bank for 2013; The Best Transaction Bank for 2015)

- Asian Banking and Finance Wholesale Banking Awards (Philippine Domestic Cash Management Bank of the Year for 2012, 2015)

- Asiamoney (Best Local Cash Management Bank in the Philippines as voted by Small-sized Corporates for 2012, 2014; Best Overall Domestic Cash Management Services in the Philippines as voted by Large-sized Corporates for 2014; Best Overall Cross-Border Cash Management Services in the Philippines as voted by Small-sized Corporates for 2014; Best Local Currency Cash Management Services in the Philippines for 2008)

- The Asset (The Best Transaction Bank in the Philippines for 2012; Rising Star Cash Management Bank for 2009, 2010, 2011)

- Alpha Southeast Asia (Best Cash Management Bank in the Philippines for 2008, 2009 and 2015)

Personal Cash Management

Electronic Banking

The Bank provides secure electronic banking channels which allow and make it more convenient for its customers to access their deposit, credit card and other BDO accounts through a complete array of online, mobile banking and phone banking facilities. These channels allow customers to check account balances, monitor and place additional trust investments, pay bills, transfer funds to other BDO accounts, send money to anyone, buy prepaid mobile reload, reload BDO cash cards, reorder checkbooks, view account transaction history, access and download credit card and checking account electronic statements with images of issued checks for checking accounts anytime from anywhere in the world. The Bank was recognised by Asian Banking and Finance for Best Online Banking Initiative in 2014 and 2015.

Online Banking

Transaction Banking offers online banking to both individual and corporate clients. Using industry-standard security measures, BDO's Online Banking allows clients to perform their banking transactions at their own convenience by allowing access to their accounts.

Retail customers can view their account balance, credit card statements, and other accounts such as trust investments online. They can also pay bills, transfer funds to their own or other enrolled accounts, reload a BDO

Cash Card, buy load for their prepaid mobile phone account, order checkbooks, send money, execute wire transfers and issue stop payment orders. With mobile online banking, customers can also access BDO Online Banking from their mobile phone's web browser for more banking convenience.

Corporate customers can transfer funds and make bulk payments, as well as retail payments through cash card and corporate checks via Business Online Banking. It also provides consolidated information to facilitate liquidation management. An online facility is also available to process warehouse payable and credit suppliers' accounts upon maturity.

Phone Banking

The Bank utilises interactive voice response service technology to provide retail customers access to their accounts, and make banking transactions such as balance inquiry, bills payment, fund transfers, BDO Cash Card reload, prepaid mobile phone reload and checkbook reorder via a touchtone phone.

Mobile Banking

Retail customers can manage their money while on-the-go using mobile banking which allows account inquiry, funds transfer, prepaid mobile phone reload, and reload to an enrolled SMART Money account.

Automated Teller Machines (ATM)

BDO's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change PINs and activate Personal Online Banking enrollment at any of the ATM terminals nationwide which, as of 30 June 2016, numbered 3,372 ATMs (including 184 ONB ATMs).

Most of BDO's ATMs are EMV-ready and BDO has also commenced to roll out EMV chip-embedded BDO ATM debit cards and credit cards to comply with the directive of the BSP for banking institutions to shift from magnetic stripe technology to EMV chip-enabled cards.

Cash Accept Machine (CAM)

BDO's CAMs allow customers to deposit cash to their account and other BDO accounts through any of the in-branch and offsite locations in key cities and business districts nationwide. CAMs, which can accept up to 200 notes per transaction, allow real-time crediting of deposits. Other card-based transactions include balance inquiry, fund transfer to own and other BDO accounts, bills payment, prepaid mobile reload, PIN change, and Personal Online Banking activation. Cash deposit and payment of bills not requiring enrolment may also be performed without a card.

Retail Cards

BDO offers a variety of prepaid and debit card solutions to enable cashless purchases at POS terminals, cash withdrawals worldwide and online shopping.

BDO ATM Debit Card

The BDO ATM Debit Card is a Peso, US-dollar or HK dollar-denominated card linked to a BDO current or savings account. It carries the MasterCard and Visa brands that allow access to cash in over two million MasterCard/Cirrus/Visa/Plus ATMs, cashless shopping in over 40 million establishments worldwide, and e-commerce. It allows balance inquiry, cash withdrawal, bills payment, cash card reload, and checkbook reorder. As of 30 June 2016, over 15.9 million cards generating a total of around 125.5 million transactions amounting to ₱402.9 billion worth of financial transactions have been issued by the Bank.

BDO Cash Card

BDO Cash Card is a reloadable, PIN-based, electronic value card that allows cardholders to withdraw cash and make payments without opening a BDO deposit account. This card is mainly used by companies for their payroll and by remittance partners for their payouts. Retail customers use it as a family card for household expenses, cash allotment, and everyday micro payment needs. The Bank charges fees for issuing the BDO Cash Card and may also require corporate clients to place amounts on deposit.

As of 30 June 2016, the Bank has issued over 7.6 million BDO Cash Cards to more than 2,800 payroll companies and 56 remittance partners, generating ₱40.8 billion worth of financial transactions.

Smart Money Card

The Smart Money Card is a Bank-issued co-branded card with Smart e-Money Inc. The Smart Money Card allows balance inquiry, bills payment, "Smart/Talk N Text" airtime reload, and wallet-to-wallet transfers using a Smart mobile phone. The card may be used for ATM transactions and for purchases in Mastercard establishments worldwide. As of 30 June 2016, the Bank had an active cardholder base of over 398,000 generating about 41.4 million financial transactions worth ₱83.3 billion. Smart Money facilitates sending of money to Smart's subscribers and encashment in over 5,000 cash servicing centres on top of BDO's network and channels.

Remittances

The remittance function involves purchasing foreign exchange for remittance transactions and delivering remittance payments through the Bank's branch network, SM Forex counters, partner rural banks and courier services. The Bank has a wide remittance network consisting of 28 remittance offices worldwide complemented by relationships with at least 332 remittance/money transfer tie-ups, 625 accredited foreign and local correspondent banks and at least 34 designated agents.

For the years ended 31 December 2013, 2014 and 2015, the Bank's volume of OFW remittances amounted to US$8.3 billion, US$9.5 billion and US$10.4 billion, respectively, representing a 16.9%, 14.1% and 8.9% increase year-on-year, respectively. In the six months ended 30 June 2016, the Bank's volume of OFW remittances was US$5.5 billion, an increase of 11.4% from its volume of OFW remittances for the six months ended 30 June 2015.

The Bank was recognised by the BSP as the Top Commercial Bank in Generating Remittance from Overseas Filipinos from 2008 to 2010 and 2013 to 2015, and was given the 2010 Hall of Fame Award. The BSP also named the Bank as Best Performing PhilPaSS Remit Participant for five straight years since 2011. Also in 2011, the Bank received an award as the Best Bank for Brand Building from MoneyGram.

As of 31 March 2016, the Bank had an approximately 37.0% market share of total remittance volume, based on BSP data on "Overseas Filipinos' Personal Remittances" information.

The Bank intends to (i) expand its existing international presence by establishing more partnerships and tie-ups with local and international correspondent banks and agents in Europe, the United States, Australia and the Middle East, (ii) rationalise its correspondent banking relationships and (iii) enhance its technology in electronic remittance processing to enable more efficient delivery of remittance services in the industry.

Investment Banking

The Bank provides investment banking services to its corporate clients through its wholly-owned subsidiary BDO Capital. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as Government-owned and controlled corporations and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers and other institutions. BDO Capital services include:

- Equity and Quasi-Equity Underwriting and Management — BDO Capital underwrites and manages public and private equity and quasi-equity transactions, including initial public offerings, follow-on offerings, rights issues, warrants issuances and tender offers. BDO Capital is also involved in quasi-equity transactions such as hybrid securities issuances and preferred shares issuances;

- Direct Equity Investment — BDO Capital invests directly in existing and start-up enterprises or offers such investment opportunities to other clients;

- Financial Advisory — BDO Capital provides financial advisory services to companies to support their short-, medium- and long-term objectives. Advisory services comprise, among others, corporate and debt restructuring advice, as well as merger and acquisition advisory services;

- Fixed Income Underwriting, Packaging and Syndication — BDO Capital offers clients underwriting services in relation to corporate and government bonds, term loan packaging and syndication services; and

- Securitisation — BDO Capital acts as underwriter and selling agent for various asset-backed securities issued by special purpose entities.

BDO Capital has been involved in major fundraising exercises for the Government (via Liability Management Program/ROP Bond Exchange) and private issuers such Aboitiz Group (Therma Visayas Inc.) (Most Innovative Deal (Philippines) by The Asset), SN Aboitiz Power-Benguet, and San Carlos Sun Power Inc. (Project Finance Deal of the Year, Best Energy Deal (Philippines) and Best Renewable Energy Deal-Solar (Philippines) by The Asset), Ayala Group (Ayala Land and Ayala Corp.), Lopez Group (First Gen and Bacman Geothermal), SBS Philippines (Best Small Cap Equity Deal of the Year in Southeast Asia for 2015 by Alpha Southeast Asia), San Miguel Corp. (Best Local Currency Bond-Philippines for 2015 by The Asset), San Buenaventura Power (Asia-Pacific Power Deal of the Year-2015 by Project Finance International and Best Power Deal (Philippines)-2015 by The Asset), Double Dragon, Vista Land, Filoil Energy, Del Monte, Property Company of Friends, Filinvest Land, Monde Nissin, Asia United Bank, SM Prime, DMCI Project Developers, Esquire Financing, Tiger Resort, CEMEX Holdings, National Grid Corp. of the Phils., and Roxas Holdings.

BDO Capital has received several awards from prestigious international publications over the last 10 years recognising its position as one of the leading investment banks in the Philippine equity and debt capital markets. These awards include, among others, Best Investment Bank in the Philippines from 2006 to 2014 and from 2007 to 2016 as awarded by FinanceAsia and Alpha Southeast Asia, respectively; and Best Domestic Investment Bank from 2006 to 2014, Best Corporate and Institutional Bank in the Philippines for 2015 and Project Finance Bank of the Year in the Philippines for 2015 as awarded by The Asset. For 2016, BDO Capital received Finance Asia's Platinum Awards (Past 20 years) for Best Domestic Investment Bank and Best Domestic Equity House in the Philippines, and Alpha Southeast Asia's 10th Anniversary Awards for the Past 10 Years for Best Investment Bank and M&A House, Best ECM House and Best DCM House in the Philippines. BDO Capital also won numerous awards for Best Equity House and Best Bond House from these various publications from 2006 to 2016. BDO Capital also received the Best Investment Bank in the Philippines award for 2013 and 2014 from Global Finance and was also conferred the Top Corporate Issue Manager/Arranger Award from 2011 to 2015 by the Philippine Dealing and Exchange Corporation. The Asia Pacific Loan Market Association also awarded BDO Capital the Syndicated Loan House of the Year (Philippines) for 2013 and 2014.

Trust and Investments Group

The Bank provides trust and investment management services through its Trust and Investments Group (**BDO Trust**). For corporate accounts, BDO Trust offers a wide range of products, including employee benefit plans, investment management and advisory services, escrow arrangements, registry/transfer agency services, paying/collection and other collateral agency services. For high net worth clients, BDO Trust provides access to customised portfolios via living trust and investment management accounts.

BDO Trust offers investment opportunities to its retail clients through a selection of Peso and U.S. Dollar-denominated Unit Investment Trust Funds (**UITFs**). UITFs are collective investment schemes that seek to offer returns comparable to those of larger investors. They are professionally managed according to specific investment objectives and invested accordingly in diversified portfolios. A client has the choice of investing directly in the UITFs or through the BDO Easy Investment Plan (**EIP**), a program that facilitates regular investing in selected

BDO UITFs. The EIP is an investment scheme that assists individuals in attaining their financial goals and financial wellness through saving and investing.

In accordance with Philippine banking regulations, the Bank's Trust Committee oversees its trust business and approves all of its investment decisions.

The Bank's consolidated trust assets under management reached ₱955.8 billion as of 30 June 2016, a 13.1% increase from the ₱845.3 billion managed as of 30 June 2015. The Bank believes it maintains the largest trust assets business in the Philippines. Similarly, in the UITF business, the Bank also posted the largest fund levels in the industry, at ₱293.4 billion as of 30 June 2016.

BDO Trust was rated as one of the top investment managers in the Philippines according to Towers Watson's 122nd Survey on Investment Performance of Retirement Funds in the Philippines. For the quarter ending 30 June 2015 in particular, BDO Trust generated the highest returns on investment over the last five years under the "All Trusteed Funds Category" for investment managers handling at least five funds in the survey.

BDO Trust's expertise, product offering and competitive investment performance were recently recognised by various international institutions:

- 2015 Best Investment Management Company – Philippines by World Finance Magazine (London)
- 2015 Most Trusted Brand – Investment Fund Category by Readers' Digest Asia
- 2015 Rising Star Retail Fund Administrator - Philippines Category by The Asset Magazine
- 2016 Fund House of the Year for the Philippine Market by Asian Investor Magazine
- 2016 Best Investment Management Company – Philippines by World Finance Magazine (London)
- 2016 Asset Management Company of the Year – Philippines by The Asset Magazine
- 2016 Impact Investor of the Year – Philippines by The Asset Magazine

BDO Trust also became the first institution in the Philippines to be accredited as Personal Equity and Retirement Account (**PERA**) Administrator. PERA, is the Philippine version of similar laws covering retirement savings vehicles prevalent and long standing in more developed countries such as IRA and 401K.

Asset Management (Properties)

Asset Management (Properties) is tasked with managing the Bank's acquired assets portfolio. It is responsible for identifying the best use, ideal disposition and developing disposal strategies including outright sale, property auctions or joint venture arrangements with real estate companies.

Support and Delivery Management

Support and Delivery Management ensures that the Bank's operational needs are efficiently met, the Bank's processes aligned with its business objectives and its vision and corporate strategies realised. It is composed of the following: Information Technology, Comptrollership, Human Resources, Marketing Communications, Investor Relations, Corporate Planning and Central Operations. Also functionally grouped under Support and Delivery Management are Risk Management as well as Internal Audit and Compliance, both of which report to their respective Board-level committees, namely, the Risk Management Committee and the Audit Committee.

Information Technology

The Bank's IT Group is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. It is organised into two separate but interdependent groups:

- IT Development (**ITD**) which is responsible for providing and maintaining the application systems used by the Bank to support its operations and business plans using its resources and specialised knowledge on business-functional requirements, and

- IT Operations (**ITO**) which handles the Bank's network, data centre, and other parts of the IT infrastructure and provides technical support and applications support.

Comptrollership Group

The Bank's Comptrollership Group is primarily responsible for developing and maintaining an integrated financial information and control system within the framework of generally accepted accounting principles and applicable regulatory policies, managing all accounting operations of the Bank and its subsidiaries, and providing senior management with information necessary for planning, directing and controlling group operations.

Human Resources Group

The Bank's Human Resources Group is responsible for the formulation, development and implementation of corporate-wide human resources strategies, policies, procedures and programmes covering recruitment and selection, talent management, manpower planning, training, performance management, organisation development, compensation and employee benefits and services.

Marketing Communications Group

The Bank's Marketing Communications Group is responsible for the oversight of the Bank's corporate affairs and public relations functions, as well as the development & implementation of institutional advertising campaigns. It is also responsible for managing the bank's enterprise-wide loyalty programme (BDO Rewards) campaigns, while providing marketing services support to the various business groups and subsidiaries. The Marketing Communications Group likewise serves as gatekeepers of the BDO branding standards, and provides a similar governance function for the emerging digital marketing area.

Investor Relations

The Bank's Investor Relations Office aims to provide the investor community with continuing access to information relating to the Bank's financial performance. It also provides the Bank's management critical information on relevant developments in the financial markets that may be utilised by the Bank in formulating its long- and short-term plans. It also oversees all corporate communication with analysts, investors and stockholders.

Central Operations Group

The Bank's Central Operations Group is responsible for providing backroom support functions to various business groups in the areas of cash and check clearing operations, commercial and consumer loans account services, trade finance transaction processing services, corporate cash management services, electronic channels' transaction reconciliation and settlement, call centre services, card production and checking account statement rendition, and inter-bank funds transfer transactions. It also provides procurement and logistics supply management, premises management, physical security, safety and investigation, physical and digital document storage and retrieval and general services. As a major service delivery group, the Bank's Central Operations Group ensures that backroom processes are responsive to the customer commitments of the customer-facing business units and that transaction processing systems and other support services are efficiently administered and continuously improved.

Further, it is responsible for ensuring that operational risks in its various areas of coverage are properly managed.

Customer Contact Centre

BDO Customer Contact Centre was established in June 2001 to provide customer service assistance to the Bank's retail customers, specialising in deposits, consumer loans, credit cards, remittance and other retail products. The Centre also supports the Bank's acquiring business and its electronic banking services.

The Customer Contact Centre operates 24 hours a day, seven days a week, with over 417 personnel who are equipped with a customer relationship management system which allows them to deliver personalised customer service and conduct precise cross-selling initiatives. It also enables customer service officers to build customer contact data, which helps them manage and respond to customers' needs more effectively and efficiently. In March 2011, the Centre opened its second site in Makati, to serve as its hot site for disaster recovery.

BDO Customer Contact Centre's average monthly volume from January to June 2016 was 531,446 for customer calls and 36,219 for e-mails and fax correspondence, comprising correspondences from BDO customers and the general public.

Corporate Social Responsibility

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, impact to society and the environment is an important element in the way the Bank conducts its business. The Bank puts great importance in instilling the core value of community involvement among its employees through its employee volunteerism program. Going beyond local host communities, the Bank has taken on its role of contributing to national development by pursuing certain social initiatives with partner development institutions, including Gawad Kalinga, the International Federation of Red Cross and Red Crescent Societies, Philippine National Red Cross, UN Habitat, CFC ANKOP-Tekton Foundation, National Housing Authority, Habitat for Humanity (which provides housing and resettlement projects for typhoon victims and informal settlers); the Center for Agriculture and Rural Development-Mutually Reinforcing Institutions, Development Institute (which provides education, livelihood and capacity-building activities for micro-finance practitioners); Worldwide Fund for Nature and Philippine Business for Social Progress (which promotes environmental awareness).

Employees

As at 30 June 2016, the Bank employed a total of 29,018 people, 12,446 of whom were engaged in a professional managerial capacity and classified as Bank officers.

Bank employees, other than those expressly excluded in the Collective Bargaining Agreement (**CBA**), are represented by the NUBE - Banco De Oro Employees Association (the **Union**). The Bank's CBA is in effect for a period of five years from 1 November 2015 to 31 October 2020 in so far as the representation aspect is concerned. All provisions of the agreement are in effect for a period of three years until 31 October 2018 except the economic provisions which shall be renegotiated for the period 1 November 2018 to 31 October 2020. The Bank's latest CBA was signed 13 January 2016 and was unanimously accepted and ratified by its members.

The Bank has not suffered any strikes since it started operations, and the management of the Bank considers its relations with its employees and the Union to be good.

The average age of the Bank's officers and employees is 33 years, and the average Bank-wide tenure is seven years. The mandatory retirement age for the Bank is 60 years.

The aggregate compensation paid to employees by the Bank for the years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016 were ₱16.5 billion, ₱18.1 billion, ₱21.1 billion and ₱10.7 billion, respectively.

The Bank maintains a tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As at 31 December 2015, the fair value of the retirement plan assets of the Bank was ₱20.1 billion and the present value of the obligation was at ₱18.7 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognised a retirement benefit asset of ₱1.4 billion for the year.

Employee Insurance

The Bank provides its employees with group life insurance coverage from Generali Life Assurance Philippines, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), and Group Personal Accident

Insurance which covers accidental death and dismemberment provided by ACE Insurance in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

Legal Proceedings

Details of material proceedings involving the Bank are set out in Note 31.1 of the notes to the audited financial statements included in this Offering Circular. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

PEACe Bonds

On 18 October 2001, the Bureau of Treasury (**BTr**), through an auction, offered ten-year zero coupon treasury bonds, called the Poverty Eradication and Alleviation Certificates Bonds (**PEACe Bonds**), to Government securities eligible dealers. Rizal Commercial Banking Corporation (**RCBC**) won the bid in the same year and was awarded approximately ₱35 billion worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO, who relied in good faith on representations that the same are not subject to 20% final withholding tax (**20% FWT**).

On 16 July 2004, the Commissioner of Internal Revenue 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 7 October 2011, or nearly ten years after the auction, the Commissioner of Internal Revenue, upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

On 17 October 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and Bureau of Internal Revenue (**BIR**) from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. In addition, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On 18 October 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (**TRO**) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On 27 October 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on 15 November 2011.

On 15 November 2011, the Supreme Court required the Government to show cause why they failed to comply with the 18 October 2011 TRO and, required them to comply with said TRO within ten days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as 22 November 2011, the Government filed its Comment on the Petitions-in-Intervention only on 14 February 2012, while the Petitioners-In-Intervention filed their respective Reply only on 16 May 2012 and 6 June 2012. The Supreme Court then issued a Resolution dated 19 June 2012 noting the filing of pleadings and granting the Petitioners-In-Intervention's motions for extension.

On 27 November 2012, the petitioning banks filed a Manifestation With Urgent Reiterative Motion To Direct Respondents to Comply with the TRO dated 27 November 2012 (**Manifestation/Reiterative Motion**), plead that the Supreme Court to issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to enable them to comply with the Honorable Court's "condition that the 20% FWT on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On 7 February 2013, the Petitioners received Respondents' Motion asking for a period of 30 days from 4 February 2013, or until 6 March 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated 12 February 2013, the Supreme Court granted Respondents' Motion.

On 17 April 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated 11 April 2013. On 5 June 2013, the Petitioners filed a Reply to said Comment, and are awaiting the resolution of the Supreme Court on the Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order and further action on BDO Unibank Group's Petition.

The Supreme Court, sitting en banc, rendered a Decision on 13 January 2015 granting the Petition and nullifying BIR Rulings No. 370-2011 and 378-2011 insofar as these declared the PEACe Bonds to be deposit substitutes and subject to 20% FWT. The Supreme Court likewise reprimanded the BTr for its continued retention of the amount corresponding to the 20% final withholding tax despite the Court's TRO, and ordering the Bureau of Treasury to immediately release and pay to the Bank and other petitioning banks the amount corresponding to the 20% FWT that was withheld on 18 October 2011. The Decision is not yet final.

On 16 March 2015, RCBC and RCBC Capital filed their Motion for Clarification and/or Partial Reconsideration. On 13 April 2015, the Respondents filed their Motion for Reconsideration and Clarification.

On 21 April 2015, the Supreme Court en banc issued a Resolution requiring the Petitioners to file a Comment on the Motions filed by RCBC and RCBC Capital and the Respondents.

On 6 July 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and RCBC and RCBC Capital's Motion for Clarification and/or Partial Reconsideration (the **Petitioners' Consolidated Comment**).

On 28 July 2015, the Supreme Court en banc issued a Resolution (1) noting the Petitioners' Consolidated Comment, (2) noting RCBC and RCBC Capital's Comment on the Respondents' Motion for Reconsideration and Clarification (the **RCBC and RCBC Capital's Comment**), and (3) requiring the Office of the Solicitor General, on behalf of the Respondents, to file a Reply to the Petitioners' Consolidated Comment and RCBC and RCBC Capital's Comment (the **Respondents' Reply**) within ten days from receipt of Notice of Resolution.

On 29 October 2015, the Petitioners received the Respondents' Reply dated 19 October 2015 and filed an Urgent Reiterative Motion (To Direct Respondents to Comply with the Temporary Restraining Order) dated 22 October 2015, which is still pending with the Supreme Court En Banc. As of 19 January 2016, the Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated 13 March 2015 and RCBC and RCAP's Motion for Clarification and/or Partial Reconsideration dated 16 March 2015. Likewise, the Petitioners are still awaiting the Supreme Court's Resolution on their Urgent Reiterative Motion.

Applicability of RR 4-2011

On 15 March 2011, the BIR issued Revenue Regulations No. 4-2011 (**RR 4-2011**) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and foreign currency deposit unit / expanded foreign currency deposit unit or offshore banking unit.

On 6 April 2015, 19 banks (**Petitioners**) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction (the **Petition**), with the Regional Trial Court of Makati. BDO Unibank Inc. and BDO Private Bank are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On 8 April 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on 27 April 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On 29 May 2015 and 7 July 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief and a Supplemental Motion for Reconsideration, respectively.

On 5 August 2015, the Petitioners filed their Comment to the BIR's Supplemental Motion for Reconsideration and they also filed a Consolidated Reply to the Consolidated Comments of Respondents BIR and the Department of Finance. To date, the Regional Trial Court of Makati has not yet resolved Respondent BIR's Supplemental Motion for Reconsideration, dated 20 June 2015, which seeks the reconsideration of the court's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of 7 September 2015, the Regional Trial Court of Makati issued an Order allowing Development Bank of the Philippines (**DBP**) and United Overseas Bank of the Philippines (**UOBP**) to intervene in the case. As of 19 January 2016, the court has not yet resolved UOBP's application for the issuance of a Writ of Preliminary Injunction.

On 19 October 2015, Land Bank of the Philippines (**LBP**) filed a Motion for Leave to Admit LBP's Petition-in-Intervention. As of 19 January 2016, the court has not yet resolved LBP's Motion to Intervene.

On 10 November 2015, the Regional Trial Court of Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

Bankard

BDO (as successor in interest of EPCIB), as respondent, and RCBC Capital Corporation (**RCBC Capital**), as claimant, were involved in international arbitration proceedings involving a Sale and Purchase Agreement executed between RCBC Capital and EPCIB in May 2000, whereby EPCIB sold to RCBC Capital its 67% stake in the outstanding capital stock of Bankard, Inc. RCBC Capital and BDO Unibank, Inc. reached a complete and final settlement of their claims in 2013 and the various cases between them have been terminated.

Maxicare

The Bank was a defendant/respondent in legal proceedings arising from the sale of its 60% stake in Maxicare, a health maintenance organisation, in 2007. Arbitration proceedings were initiated in 2008 against the Bank and in 2011 against the Bank and several parties including the buyer of its 120,000 shares in Maxicare. In December 2012, the parties settled these cases amicably and joint motions to dismiss were filed in the relevant proceedings and all cases have since been terminated. The Bank may be subject to various other legal proceedings and claims that arise in the ordinary course of its operations.

Subsidiaries and Affiliates

BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. As of 30 September 2016, the Bank's subsidiaries and associates are as follows:

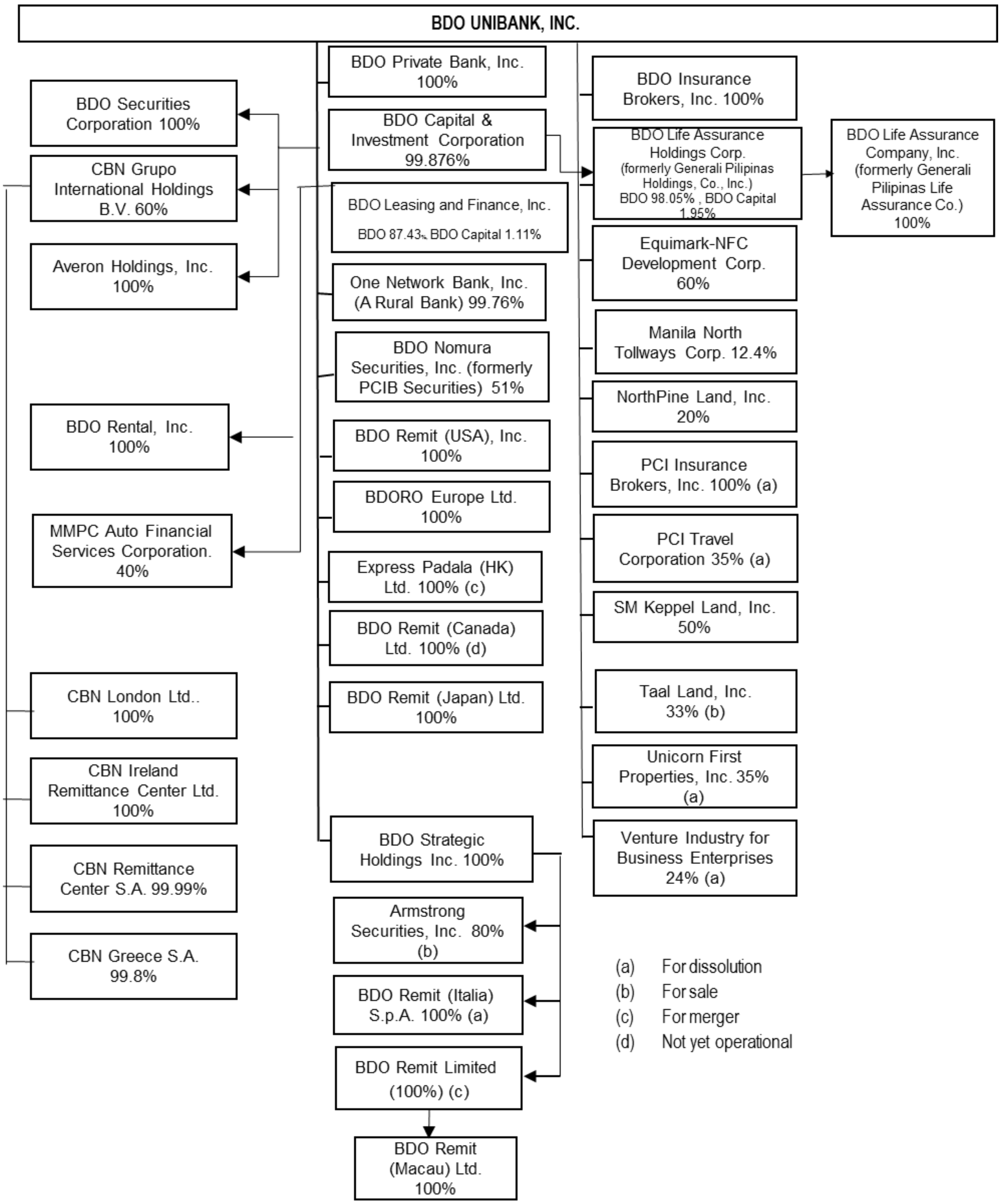
Philippine Subsidiaries	Per cent. Interest Held
BDO Capital & Investment Corporation	99.88%
BDO Insurance Brokers, Inc.	100%
BDO Private Bank, Inc.	100%
BDO Strategic Holdings, Inc.	100%
BDO Securities Corporation	100%
BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.)	51%
BDO Leasing and Finance, Inc.	87.43%
Equimark — NFC Development Corp	60%
One Network Bank, Inc. (**ONB**)	99.76%
PCI Insurance Brokers, Inc.*	100%
BDO Life Assurance Holdings Corp.	98.05%

Foreign Subsidiaries	Per cent. Interest Held
BDO Remit (USA), Inc.	100%
Express Padala (Hongkong), Ltd.	100%
BDORO Europe Ltd.	100%
BDO Remit (Canada) Ltd.	100%
BDO Remit (Japan) Ltd.	100%

Associates	Per cent. Interest Held
SM Keppel Land, Inc.	50%
Taal Land, Inc.	33%
NorthPine Land Incorporated	20%
Manila North Tollways Corporation	12.4%
PCI Travel Corporation*	35%

*For dissolution.

An organisational chart of BDO's subsidiaries and associates as of 30 September 2016 appears below.



Note:

(1) BDO Capital's holdings in CBN Grupo will increase to 96% upon compliance with regulatory notices of the investment. See description of CBN Grupo under "*Subsidiaries*".

(2) BDO's holdings in One Network Bank, Inc. will be reduced to 59.99% upon satisfaction of closing conditions and receipt of regulatory approvals. See description of One Network Bank, Inc. under "*Subsidiaries*".

Subsidiaries

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation (**BDO Capital**), a wholly-owned investment house, is the investment banking arm of the Bank that started operations in March 1999. BDO Capital was established to address the capital raising needs of the Bank's larger corporate and institutional accounts, as well as Government-owned and controlled corporations and match these with the investment requirements of the more sophisticated investors including high net worth individuals, fund managers and other institutions. See "— *Product Management — Investment Banking*".

On 22 July 2015, stockholders of BDO Capital approved the merger of BDO Capital with BDO Elite Savings Bank, Inc. (**BDO Elite**) and Banco De Oro Savings Bank, Inc. (**Banco De Oro Savings**), and with BDO Capital as the surviving entity. On 22 July 2015, stockholders of Banco De Oro Savings approved the surrender to the BSP of its banking and trust licenses. On 20 August 2015, BDO Elite secured the BSP approval to surrender its banking and trust licenses in view of the cessation of its banking business. On 22 July 2015, stockholders of Banco De Oro Savings approved the surrender to the BSP of its banking and trust licenses. An application for the approval to surrender Banco De Oro Savings' licenses and the notation of the merger was filed with the BSP. The merger application was filed with the Philippine Securities and Exchange Commission. On 30 June 2016, the SEC approved the merger of BDO Elite and Banco De Oro Savings with BDO Capital.

BDO Insurance Brokers, Inc.

BDO Insurance Brokers, Inc. is a wholly-owned insurance broker of the Bank. It began commercial operations in September 1997 as an insurance intermediary for the Bank, its customers, and the Bank's affiliates, including the SM Group. For the years ended 31 December 2013, 2014, 2015 and for the six months ended 30 June 2016, ₱4.6 billion, ₱5.9 billion, ₱7.0 billion and ₱4.5 billion, respectively, of gross insurance premiums were arranged by BDOI. While BDOI has the technical capability to evaluate insurance risks, it does not underwrite or absorb insurance risks.

BDO Private Bank, Inc.

BDO Private Bank, Inc., a wholly-owned commercial bank subsidiary of the Bank, was acquired on 29 August 2003 to provide a dominant presence in the Philippine private banking sector. BDO Private Bank focuses in providing wealth management and bespoke private banking services to a niche market of emerging affluent and high net worth individuals as well as corporate and institutional clients.

As of 31 December 2013, 2014, 2015 and 30 June 2016, BDO Private Bank had ₱39.8 billion, ₱38.9 billion, ₱51.6 billion and ₱51.4 billion in total resources, respectively. Its total Assets Under Management as of 31 December 2013, 2014, 2015 and 30 June 2016 were at ₱242.8 billion, ₱279.4 billion, ₱308.7 billion and ₱325.1 billion, respectively.

As a testament to its pioneering spirit and dominance in the domestic private banking market in terms of market share, performance and recognition, BDO Private Bank's recent awards include Best Private Wealth Management Bank 2015 (Alpha Southeast Asia; awardee since 2008); Best Private Bank for Asset Management in the Philippines (Euromoney Private Banking Survey 2015); Best Private Bank in the Philippines (Global Finance The World's Best Private Banks); Best Private Bank in the Philippines (The Asset Triple A Private Banking, Wealth Management and Investments Awards 2015); among others.

BDO Strategic Holdings, Inc.

BDO Strategic Holdings, Inc. (**BDOSHI**), formerly, EBC Investments, Inc. (**EBCII**) is a domestic corporation licensed to operate as a holding company. BDOSHI, which is wholly-owned by the Bank, owns three offshore remittance companies.

BDO Securities Corporation

BDO Securities Corporation, (**BSC**), a wholly-owned subsidiary, was incorporated in the Philippines on 25 September 1995 to engage primarily in the stock brokerage business and to deal in securities and all activities directly connected therewith or incidental thereto. BSC is a trading participant in the Philippine Stock Exchange and operates within the Philippines.

BDO Leasing and Finance, Inc.

BDO Leasing and Finance, Inc., an 87.43% owned subsidiary, was incorporated in 1981 and was listed in the PSE on 6 January 1997. BDO Leasing's principal business is to provide leasing and financing products to commercial clients. Its leasing products include direct leases, sale and leaseback arrangements, and dollar-denominated leases. Its financing products include commercial and consumer loans, installment paper purchases, employee personal loans, and receivables discounting and factoring. Assets financed include automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and financial assets such as receivables.

Equimark-NFC Development Corporation

Equimark-NFC Development Corp. is 60% owned by the Bank and 40% owned by China Non-ferrous Metals Industry. The company has a joint venture project with Avida Land, an Ayala subsidiary, involving two residential condominium towers in Makati City.

One Network Bank, Inc.

One Network Bank, Inc. (**ONB**) is 99.76% owned by the Bank. ONB is a leading rural bank with 105 branches across the Philippines and micro-banking offices in the Mindanao and Panay areas. The Bank completed the acquisition of ONB on 20 July 2015. On 30 June, 2016, the Bank announced that TPG Growth, the middle market and growth equity investment platform of TPG, will acquire a 40% stake in ONB with the Bank retaining approximately 60% ownership. The transaction is subject to closing conditions and regulatory approvals.

BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.).

PCIB Securities, Inc., a wholly-owned subsidiary, was incorporated in the Philippines on 29 June 1994 and was licensed by the SEC primarily to engage as dealer in the business of offering, buying, selling, dealing or trading of securities of all kinds for its own account and as a broker in the purchases, sales or other transactions relating to all kinds of securities of any person, corporation or entity.

On 29 June 2015, the Bank announced that it signed a definitive agreement with Nomura Holdings, Inc. (**Nomura**) for a joint investment in PCIB Securities, Inc. The joint venture, which will initially provide online trading services for local stocks to individual investors, will eventually expand its services to include cross-border investment opportunities to a broader range of investors. On 27 January 2016, PCIB Securities, Inc. executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (**Nomura Singapore**), a wholly-owned subsidiary of Nomura, for the issuance of 336,724 common shares of PCIB Securities, Inc. to Nomura Singapore at ₱370.34 per share. The joint venture was renamed to BDO Nomura Securities, Inc., with the goal of becoming one of the premier securities brokerage firms in the Philippines by providing online trading services for local stocks to individual investors. The business also aims to provide stock brokerage services to institutional clients overseas and to eventually provide a platform to connect Filipino investors to the international stock markets. The Bank holds a 51% stake in the company while Nomura owns 49%.

BDO Life Assurance Holdings Corp. (formerly Generali Pilipinas Holding Company, Inc.)

In March 1999, the Bank established Generali Holding, a joint venture holding company with Generali, Jerneh Asia Berhad (**Jerneh Asia**) and Vantage Equities, Inc., to enter into life and general insurance businesses. Generali is one of the largest insurance groups in the world, while Jerneh Asia is a member of the Kuok Group of Companies, one of the largest corporate conglomerates in Malaysia, providing a wide range of general, marine and medical insurance products. Subsequently, BDO Capital acquired the 10% holdings of Vantage Equities, Inc. in

Generali Holding. Generali Holding is effectively 40% owned by the Bank and 60% by Generali Asia, which, in turn, is 60% owned by Generali and 40% owned by Jerneh Asia.

Generali Pilipinas Life Assurance Company, Inc. (**Generali Assurance**) and Generali Pilipinas Insurance Company, Inc. (**Generali Insurance**) were both incorporated in July 1999 as wholly-owned subsidiaries of Generali Holding and were subsequently launched in March 2000 to serve as the operating companies for life and general insurance, respectively. Generali Assurance and Generali Insurance are among the largest capitalised insurers in the Philippine insurance industry and are positioned to provide the Bank with an opportunity to become a one-stop financial shop, providing a wide range of insurance products and services through its branches.

On 9 June 2015, the Bank announced that it concluded an agreement to terminate the joint venture vehicle Generali Pilipinas Holdings Company Inc. (**GPHC**), the parent firm of life insurer Generali Pilipinas Life Assurance Company (**GPLAC**) and non-life insurer Generali Pilipinas Insurance Company (**GPIC**). In the context of the agreement and subject to regulatory approvals, the Bank will take full control of GPHC and GPLAC and will be renamed BDO Life Assurance Holdings Corp. and BDO Life Assurance Company Inc., respectively, subject to closing conditions and the requisite corporate and regulatory approvals. On 30 June 2016, the Bank acquired full interest in GPHC.

By assuming full control of the GPHC insurance operations, the Bank is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market and allow it to adapt more readily to the demands of its target markets. GPLAC was renamed BDO Life Assurance Company, Inc.

BDO Remit (USA), Inc.

BDO Remit (USA), Inc., a wholly-owned subsidiary, was incorporated in California on 15 February 1991. It offers a full range of remittance services to the Philippines through its offices in Los Angeles and San Francisco, and its agents in California and other states.

Express Padala (HK) Ltd.

Express Padala (HK) Ltd. provides remittance services to the Philippines from Hong Kong. It is wholly-owned by the Bank.

BDORO Europe Ltd.

BDORO Europe Ltd., a wholly-owned subsidiary, was formed in London and registered with Companies House on 30 May 2012. It is now in the process of completing the documents to support its application for a banking licence in the United Kingdom. While waiting for the authorisation process to be completed and with the acquisition of a real estate property in London, it will initially operate as a property lessor but will eventually provide commercial banking services to the Filipino communities in the UK and Europe.

BDO Remit (Canada) Ltd.

BDO Remit (Canada) Ltd., a wholly-owned subsidiary, was incorporated on 23 June 2014 with licenses in British Columbia and Ontario. The company, which is registered as a money service business, will primarily provide remittance services to individual and corporate clients in Canada for credit/payment to their beneficiaries in the Philippines. It is still in the process of completing requirements of lease agreements to be able to commence operations.

BDO Remit (Japan) Ltd.

BDO Remit (Japan) Ltd., a wholly-owned subsidiary, was incorporated in Tokyo, Japan on 18 August 2014. The license to operate as a fund transfer business company was granted by Kanto Financial Bureau (FSA) on 2 December 2015. Its remittance office, located at Zenken Plaza II, 1F & 2F, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, Japan, started operations on 1 April 2016 and offers a full range of remittance services to Overseas Filipino Workers in Japan.

Associates

SM Keppel Land, Inc.

SM Keppel Land, Inc. is approximately 50% owned by the Bank and 50% owned by the Keppel Group of Singapore. It is a private corporation which owns approximately two hectares of land in the Ortigas district where SM Keppel operates a five-storey retail podium geared towards upper market lifestyle shopping.

Taal Land, Inc.

Taal Land, Inc. is 33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

NorthPine Land Incorporated, where the Bank holds a 20% interest, is a real estate company involved in horizontal development targeting the middle-income to high-end housing market. Current projects are located in Cavite, Laguna and Rizal. The other shareholders of the company are Hong Kong Land, Inc., San Miguel Properties, Inc. and Metrobank.

Manila North Tollways Corporation

Manila North Tollways Corporation, where the Bank has a 12.4% ownership, is the builder and concessionaire of the North Luzon Expressway, and is involved in all aspects of tollway operations – from toll collection to traffic management and from motorists' assistance to roadway maintenance. The other MNTC shareholders are Metro Pacific Tollways Development Corporation, Egis Projects S.A. of France, reputedly the world's biggest tollways operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation, the state-owned company that holds the franchise for the operation of the expressway.

Other companies in the BDO Group

BDO Remit Limited

BDO Remit Limited (**BDO Remit**), a wholly-owned subsidiary of BDOSHI, was incorporated on 15 September 2004 as BDO Remittance until it changed to its current legal name on 3 August 2009. It offers specialised remittance services to cater to the needs of Filipino workers and migrants in Hong Kong who regularly send money to the Philippines. With its growing network in Hong Kong, BDO Remit offers secure, reliable and convenient remittance service to the Philippines through its offices in Worldwide Plaza and in Tsuen Wan and through its agents in more than 60 other locations all over Hong Kong.

BDO Remit (Italia) SPA

BDO Remit (Italia) SpA, is a company incorporated as a joint stock or limited liability corporation (Societa per Azioni - SpA). It was established under its former name EBC Interlink S.p.A. in Milan, Italy on 23 April 1996. The corporate name was changed to Express Padala (Italia) SpA on 1 January 2000 during the merger between then Equitable Bank and PCIBank. Subsequently, with BDO's acquisition of EPCIB, the remittance company name was changed to BDO Remittance (Italia) SpA on 28 April 2008 and to BDO Remit (Italia) SpA on 29 July 2009

BDO Remit (Macau) Limited

BDO Remit (Macau) Ltd., a wholly-owned subsidiary of BDO Remit, was incorporated on 18 December 1997 initially under the name of PCI Express Padala. On 6 May 2010, it was incorporated under its current legal name, BDO Remit (Macau) Ltd. The subsidiary office extended its presence by opening its second branch on 17 August 2010. To date, the two offices located in China Plaza offer a full range of remittance services to Overseas Filipino Workers in Macau.

BDO Rental, Inc.

BDO Rental, Inc., a wholly-owned subsidiary of BDO Leasing, was incorporated on 10 March 2005. Licensed to engage in renting and leasing equipment (except finance lease), it started commercial operations on 30 June 2005.

Armstrong Securities, Inc.

Armstrong Securities, Inc. (**ASI**) is 80% owned by BDOSHI which is a wholly-owned subsidiary of the Bank. ASI is licensed by the SEC as a dealer in securities and is an accredited trading participant of the PSE.

Averon Holdings Corporation

Averon Holdings Corporation, a wholly-owned subsidiary of BDO Capital, is a holding company engaged primarily in the leasing business. Its building located in 6780 Ayala Avenue, Makati City, whose accreditation from the Philippine Economic Zone Authority (**PEZA**) allows locators to enjoy certain incentives, currently counts some business process outsourcing (**BPO**) companies among its tenants.

CBN Grupo International Holdings B.V.

CBN Grupo International Holdings B.V. (**CBN Grupo**), which is 60% owned by BDO Capital, is a remittance company based in Europe which was incorporated in the Netherlands on 10 October 2007. Operating in UK, Ireland, Spain and Greece, CBN Grupo offers door-to-door delivery, bank to bank deposit, Smart Money and BDO Cash Cards and pick up anywhere services.

On 27 June 2015, the Bank's Board of Directors authorised the investment by BDO Capital of 3,273,000 shares in CBN Grupo. Upon completion of such investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The BSP approved the investment in March 2016. The transaction will be completed following compliance with regulatory notices of the investment, which is expected to be in October 2016.

MMPC Auto Financial Services Corporation

MMPC Auto Financial Services Corporation is a joint venture of BDO Leasing and Finance, Inc. (**BDOLF**), a subsidiary of the Bank, with Mitsubishi Motors Philippines Corporation (**MMPC**), Sojits Corporation (**SJC**) and JACCS Co. Ltd. (**JACCS**), and was incorporated to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. BDOLF owns 40% equity interest in MAFSC. The joint venture is seen to harness the complementary strengths of the joint venture partners in order to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. The Bank's wide distribution network and industry leadership are seen to complement MMPC's established presence in the automotive industry, while both SJC and JACCS will contribute their international perspective and knowledge base on consumer credit to the business.

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. The Bank's goal with respect to risk management is to ensure that it identifies, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to address these risks.

Risk Management

To manage the financial risks of holding financial assets and liabilities, the Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price, and credit risks) and operational risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statements of financial position to optimise the risk-reward balance and maximise return on the Bank's capital. The Bank's Risk Management Committee (**RMC**) has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. Specifically, the Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market 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 the Bank's overall risk management system is the ALCO, which is responsible for managing the Bank's statement of financial position, including its 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 Bank's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimise the risk-reward balance and maximise return on capital.

In the performance of its function, the 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 then disseminates the approved policies to the relevant businesses/functions after which, pertinent authorities are delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. The RMG then performs compliance monitoring and review to ensure approved policies are adhered to.
- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.
- When adverse trends are observed in the account/portfolio, the RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.
- The RMG is responsible for the direct management of accounts in the Bank's non-performing loans/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximise 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.

Liquidity Risk Management

Liquidity risk is the risk that there could be insufficient funds available to meet the credit demands of the Bank's customers adequately and repay deposits on maturity. The Bank 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, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The Bank's principal source of liquidity is comprised of ₱30.9 billion of cash and ₱1,632.5 billion of short-term deposits with maturities of less than one year as of 30 June 2016. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be converted to cash quickly. Of a net portfolio of trading and investment securities of ₱227.9 billion, ₱221.5 billion, ₱225.8 billion, and ₱267.3 billion, respectively, as of 31 December 2013, 2014, 2015 and 30 June 2016, ₱17.6 billion, ₱16.9 billion, ₱31.9 billion and ₱42.9 billion, respectively, comprised trading and investment securities with remaining maturities of one year or less. The Bank also uses the interbank market as a means of maintaining a sufficient level of liquid assets. It had interbank loan receivables of ₱19.9 billion, ₱39.2 billion, ₱52.0 billion and ₱48.5 billion as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As of 30 June 2016, ₱518.0 billion, or 36.5%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

A critical element of the Bank's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Bank's net interest income. The Bank 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 maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The following table sets forth the interest rate gap position for the Bank's operations as at 30 June 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
	(in ₱ millions)					
Resources:						
Cash and other cash items	-	-	-	-	30,902	30,902
Due from BSP/other banks	116,763	179	601	-	241,119	358,662
Trading and investment securities	6,666	31,690	123,168	89,821	15,955	267,300
Loans and other receivables	719,896	120,629	356,412	220,609	-	1,417,546
Other resources	-	-	-	-	81,199	81,199
Total Resources	843,326	152,497	480,181	310,431	369,175	2,155,609
Liabilities and Equity:						
Deposit liabilities	404,165	51,428	97,475	16,480	1,202,096	1,771,643
Bills payable and subordinated debt	31678	26,428	42,202	10,030	-	110,338
Other liabilities	1,165	836	3,815	82	56,593	62,492
Total Liabilities	437,008	78,692	143,491	26,593	1,258,689	1,944,473
Equity	-	-	-	-	211,136	211,136
Total Liabilities and Equity	437,008	78,692	143,391	26,593	1,469,825	2,155,609
On-book gap	406,318	73,805	336,689	283,838	(1,100,650)	-
Cumulative on-book gap	406,318	480,123	816,812	1,100,650	-	-

Note: (1) Customer deposits maturing in one month reflect Philippine market characteristic of large numbers of short-term deposits that are generally re-deposited.

Credit Risk Management

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 Bank. The Bank 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 the Bank's risk assessment process. The RMG performs risk ratings for corporate accounts and assists the design and development of scorecards for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the RMC. 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.

The RMG reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Market Risk Management

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

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

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

- Stop loss — The 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 already 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 a percentage of projected annual net interest income.

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

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

The limitations of the VaR methodology are recognised 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 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 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.

Foreign Exchange Risk Management

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

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

The Bank's foreign exchange exposure during the day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank 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.

As at 30 June 2016, the Bank's net foreign exchange exposure was US$29.8 million inclusive of the foreign exchange position of the Bank's subsidiaries, reflecting an oversold foreign exchange position.

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

Funding

Sources of Funding

Deposits, bills payable and capital are the main fund sources of the Bank. The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source.

	As of 31 December				As of 30 June	
	2014		2015		2016	
	Amount	Ave. cost(1)	Amount	Ave. cost(1)	Amount	Ave. cost(1)
	(in ₱ millions, except Average Cost, which is in percentage terms)					
Deposits By type						
Demand	85,807	0.1	104,066	0.1	102,032	0.1
Savings	872,976	0.3	1,033,652	0.3	1,128,133	0.3
Time	533,499	1.6	526,135	1.8	541,478	1.9
	1,492,282	0.8	1,663,853	0.8	1,771,643	0.8
By currency						
Philippine Peso	1,200,473	0.6	1,347,327	0.7	1,431,338	0.7
Foreign currency	291,809	1.3	316,526	1.2	340,305	1.2
Total deposits	1,492,282	0.8	1,663,853	0.8	1,771,643	0.8
Borrowings(2)						
Philippine Peso	25,391	1.1	30,708	2.0	33,651	2.4
Foreign currency	85,000	3.0	76,865	2.8	58,777	2.7
Total borrowings	110,391	2.4	107,573	2.5	92,428	2.6
Total	1,602,673	0.8	1,771,426	0.9	1,864,071	0.9

Notes:

(1) Average cost of funding represents total interest expense for the period, divided by the average daily liability for the respective period, expressed as a percentage.

(2) For the purposes of this table, "borrowings" consists of bills payable and subordinated notes payable.

Deposits continue to be the Bank's main funding source, accounting for 93.3%, 93.1%, 93.9% and 95.0% of total funding sources as of 31 December 2013, 2014, 2015, and 30 June 2016, respectively. The Bank's deposits grew at an annual compounded average rate of 14.8% from 31 December 2008 to 31 December 2015, reaching ₱1.3 trillion as of 31 December 2013, ₱1.5 trillion as of 31 December 2014 and ₱1.7 trillion as of 31 December 2015. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As of 30 June 2016, total deposits increased to ₱1.8 trillion, approximately 80.8% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 19.2% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of 31 December 2013, 2014, 2015 and 30 June 2016, the Bank's foreign currency deposits made up 17.6%, 19.6%, 19.0% and 19.2%, respectively, of its total deposits.

As of 31 December 2013, 2014, 2015 and 30 June 2016, approximately 57.6%, 64.2%, 68.4% and 69.4%, respectively, of the Bank's outstanding deposits were in the form of demand and savings deposits.

The Bank also sources funds through borrowings from local and foreign banks, deposit substitutes and rediscounting facilities booked under bills payable. Bills payable also includes funding from specialised lending programs amounting to ₱6.4 billion, ₱5.3 billion, ₱8.9 billion and ₱9.7 billion, respectively, as of 31 December 2013, 2014, 2015 and 30 June 2016.

As of 31 December 2013, 2014 and 2015, the Bank's total bills payable amounted to ₱94.2 billion, ₱100.4 billion and ₱97.5 billion, respectively. Approximately 11.1%, 15.3% and 21.2%, respectively, of bills payable were denominated in Pesos as of 31 December 2013, 2014 and 2015. As of 30 June 2016, the Bank's total bills payable amounted to ₱82.4 billion, of which 28.7% were denominated in Pesos.

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for liquidity management purposes. Interbank borrowings are typically of short-term duration of between one day and a few weeks and have historically accounted for a relatively minor portion of the Bank's total funding requirements. The Bank is generally a net lender in the interbank call loan market and funds sourced from net interbank borrowings are minimal and generally of short duration.

The Bank's subordinated notes payable amounted to ₱3.0 billion, ₱10.0 billion, ₱10.0 billion and ₱10.0 billion as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity by participation in the interbank market in the Philippines. The Bank is a member of the PDIC, which insures all deposit accounts by a depositor maintained in the same right and capacity for up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Capital Raising Transactions

Issuance of Global Depositary Receipts

On various dates in 2006, Primebridge Holdings, Inc. (**Primebridge**), a stockholder owning 22.1% of the Bank's total outstanding shares as of 31 December 2005, offered and sold in aggregate 9,399,700 GDRs with each GDR representing 20 shares of the Bank's common stock. The GDRs constitute an offering in the U.S. only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the **Securities Act**) and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR was US$12.70 on 25 January 2006 and 14 February 2006; and US$14.55 on 15 May 2006. The GDRs were listed and traded at the London Stock Exchange. As part of the offering, Primebridge, while remaining as the registered holder of the Bank shares underlying the GDRs, transferred all rights and interests in the Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter were entitled to receive dividends paid on the shares. However, GDR holders had no voting rights or other direct rights of a shareholder with respect to the Bank's shares.

As of 31 December 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Bank. As of 31 December 2012, 9,600 GDRs equivalent to 192,000 shares of the Bank remained unconverted. On 13 May 2013, the Bank terminated its GDR program on the London Stock Exchange.

Long Term Negotiable Certificates of Deposit

Pursuant to a BSP approval dated 5 January 2005, the Bank issued on 1 June 2005 a total of ₱2.1 billion worth of Floating Rate Long-Term Negotiable Certificates of Deposit which matured on 2 June 2010. The Bank was among the first, if not the first, domestic bank to offer this product. Subsequently, on 23 November 2005, the Bank offered to the public ₱2.9 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which matured on 24 November 2010. Another tranche of Long-Term Negotiable Certificates of Deposit was issued by the Bank in October 2006. The Certificates of Deposit amounted to ₱5 billion and became due in November 2011.

On 16 October 2012, the Bank issued a total of ₱5 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which will mature in October 2019. On 25 March 2013, the Bank issued another ₱5 billion worth of long term negotiable certificates of deposit which will mature on 25 September 2018. On 12 September 2013, the Bank issued another ₱5 billion worth of long term negotiable certificates of deposit which will mature on 12 September 2020. The Certificates of Deposit were issued to support the Bank's medium-term growth objectives and help lengthen the maturity profile of its deposit base. On 4 November 2013, the BSP approved the Bank's issuance of ₱5 billion long-term negotiable certificates of deposit. The long term negotiable certificates of deposit, which will mature on 11 June 2019, were issued on 11 December 2013 at an effective rate of 3.13% per annum. On 6 April 2015, the Bank issued another ₱7.5 billion worth of long term negotiable certificates of deposit with a rate of 3.75% per annum which will mature on 6 October 2020.

Unsecured Subordinated Notes Eligible as Lower Tier 2 capital

On 21 November 2007, the Bank issued ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 capital due in 2017, callable with step-up in 2012 pursuant to the authority granted by the BSP to the Bank on 8 October 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board in its special meeting held on 1 June 2007. On 21 November 2012, the Bank exercised its option to redeem the notes.

On 20 May 2008, the Bank issued another tranche of ₱10 billion unsecured subordinated notes eligible as Lower Tier 2 capital due in 2018, callable with step-up in 2013 pursuant to the authority granted by the BSP to the Bank on 3 April 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on 23 February 2008. On 31 May 2013, the Bank exercised its option to redeem the notes.

On 20 March 2009, the Bank issued the third tranche of unsecured subordinated notes with a face value of ₱3.0 billion qualifying as Lower Tier 2 capital due in 2019, callable with step-up in 2014 pursuant to the authority granted by the BSP to the Bank on 3 April 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on 31 January 2009. The Bank exercised its option to redeem the notes on 21 March 2014, the optional redemption date.

On 27 June 2011, the Bank issued the fourth tranche of unsecured subordinated notes with a face value ₱8.5 billion qualifying as Tier 2 capital due in 2021, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on 7 April 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 notes were priced at 6.50% p.a. and were to mature on 27 September 2021. The Bank exercised its early redemption option and redeemed the Notes on 27 September 2013.

On 7 October 2011, the Bank issued the fifth tranche of unsecured subordinated notes with a face value ₱6.5 billion qualifying as Tier 2 capital due in 2022, callable but with no step-up in 2016 pursuant to the authority granted by the BSP to the Bank on 7 April 2011 and BSP Circular No. 280 Series of 2001, as amended. The Tier 2 notes were priced at 6.375% p.a. and were to mature on 7 January 2022. The Bank exercised its early redemption option and redeemed the Notes on 7 October 2013.

On 10 December 2014, the Bank issued ₱10.0 billion of unsecured subordinated notes qualifying as Tier 2 capital due in 2025, callable in 2020 pursuant to the authority granted by the BSP to the Bank on 2 October 2014. The Tier 2 notes were priced at 5.1875% per annum and will mature on 10 March 2025.

Dollar-Denominated Senior Note Issuance

On 22 October 2010, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.632%. The Senior Notes, which matured on 22 April 2016, bore a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum. The net proceeds from the issuance were in support of the Bank's business expansion plans and for general banking and relending activities.

On 16 February 2012, the Bank issued Senior Notes with a face value of US$300 million at a price of 99.448%. The Senior Notes mature on 16 February 2017 and bear a fixed interest rate of 4.50% per annum, with an effective rate of 4.625% per annum. The Senior Notes are payable semi-annually every 16 August and 16 February starting in August 2012. The net proceeds from the issuance are for general funding and relending purposes.

Syndicated Term Loan

On 6 August 2015, the Bank announced that it has entered into a US$500 million three-year syndicated term loan facility with a group of international banks. The facility is intended to be utilised for the refinancing of an existing term loan and for general banking and corporate purposes.

Capital-Raising Programme

On 26 April 2010, the Bank also undertook a US$250 million capital-raising program with the IFC, IFC Capitalisation (Equity) Fund, L.P. and foreign institutional investors to support the Bank's medium-term growth objectives and build a buffer for anticipated Basel III requirements. Subsequent to these capital-raising activities, the Bank's total capital adequacy ratio rose to 13.8% as of 31 December 2010 from 12.2% as of 31 December 2009.

On 4 July 2012, the Bank successfully completed its rights offering of common shares where a total of 895,218,832 Rights Shares were issued at a price of ₱48.60. The Offer, which raised gross proceeds of ₱43.5 billion (equivalent to over US$1 billion), further strengthened the Bank's Common Equity Tier 1 Capital.

Liquidity

Pursuant to regulations of the BSP, universal and commercial banks are required to maintain a reserve of 20% of Peso demand deposits and deposit substitutes starting 30 May 2014. The required reserves shall be kept in the form of deposits placed in the bank's demand deposit accounts with the BSP. On the FCDU side, the Bank is required to maintain at least 30% of deposit liabilities in liquid assets. The Bank has complied with the reserve requirements for both the Peso and FCDU books.

As of 31 December 2013, 2014 and 2015, the Bank's liquid assets amounted to ₱719.6 billion, ₱709.9 billion and ₱687.6 billion, equal to 43.0%, 38.1% and 33.9%, respectively, of the Bank's total assets. As of 30 June 2016, the Bank's liquid assets were ₱726.6 billion, representing 33.7% of total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	Audited As of 31 December		**As of 30 June**
	2014	**2015**	**2016**
Liquidity Position			
Liquid Assets (in ₱ millions)	709,904	687,584	726,612
Financial Ratios			
Liquid Assets-to-Total Assets	38.1	33.9	33.7
Liquid Assets-to-Total Deposits	47.6	41.3	41.0
Net Loans-to-Total Deposits	71.2	75.3	75.7

Lending

As of 31 December 2013, 2014 and 2015, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱911.5 billion, ₱1,089.4 billion and ₱1,279.4 billion, respectively, representing approximately 54.5%, 58.5% and 63.0%, respectively, of its total assets as of those dates. As of 30 June 2016, the Bank's total gross loan portfolio, on a consolidated basis, amounted to ₱1,368.2 billion, representing approximately 63.5% of its total assets as of that date. The Bank's gross loan portfolio grew at a compounded annual growth rate of 18.4% from 31 December 2008 to 31 December 2015, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilisation of existing clients while managing credit quality, minimising funding risk and maintaining an appropriate asset mix.

	As of 31 December		**As of 30 June**
	2014	**2015**	**2016**
		(audited) (in ₱ millions)	
Loans by Major Customer Type			
Large Corporates	510,671	593,446	645,798
Mid-Market	327,627	392,302	408,179
Consumer	196,766	254,637	275,381
Others	54,305	38,967	38,809
Total	**1,089,369**	**1,279,352**	**1,368,167**

Industry Concentration

Real estate activities; wholesale and retail trade, repair of motor vehicles and motorcycles; financial and insurance activities; electricity, gas, steam and air-conditioning supply and manufacturing represent the largest sectors of the Bank's loan portfolio, representing 14.9%, 14.1%, 12.2%, 11.8% and 11.1%, respectively, of the Bank's loan portfolio as of 30 June 2016. These sectors represented 14.4%, 14.6%, 13.2%, 9.9% and 11.7%, respectively, of the Bank's loan portfolio as of 31 December 2015.

Under guidelines established by the BSP, the BSP considers that concentration of credit exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% shall be made available for agrarian reform credit. In the absence of qualified borrowers, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. As with most banks in the Philippines, the Bank is not in strict compliance with this standard.

The following table sets forth an analysis of the Bank's loan portfolio (net of unearned interest or discount) by economic activity, as defined and categorised by the BSP:

	Audited As of 31 December				Unaudited As of 30 June	
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	9,124	0.8	14,702	1.1	15,094	1.1
Mining and quarrying	6,669	0.6	11,149	0.9	10,541	0.8
Manufacturing	137,676	12.6	149,197	11.7	151,589	11.1
Electricity, gas, steam and air-conditioning supply	103,584	9.5	126,441	9.9	162,063	11.8
Water supply, sewerage, waste management and remediation activities	13,987	1.3	13,450	1.1	12,630	0.9
Construction	23,196	2.1	25,942	2.0	25,845	1.9
Wholesale and retail trade, repair of motor vehicles and motorcycle	161,425	14.8	186,344	14.6	192,698	14.1
Transportation and storage	50,267	4.6	55,067	4.3	55,963	4.1
Accommodation and food services activities	32,834	3.0	38,478	3.0	42,370	3.1
Information and communication	25,462	2.4	22,930	1.8	21,902	1.6
Financial and insurance activities	181,628	16.7	169,064	13.2	166,611	12.2
Real estate activities	114,534	10.5	184,770	14.4	203,394	14.9
Professional, scientific and technical services	15,128	1.4	17,409	1.4	13,360	1.0
Administrative and support services	4,877	0.5	6,794	0.5	7,071	0.5
Public administrative and defense; compulsory social security	322	0.0	257	0.0	499	0.0
Education	1,827	0.2	9,773	0.8	11,185	0.8

Human health and social work activities	9,316	0.9	11,497	0.9	13,674	1.0
Arts, entertainment and recreation	17,613	1.6	18,308	1.4	27,789	2.0
Other service activities	66,798	6.1	105,001	8.2	123,542	9.0
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	113,049	10.4	112,751	8.8	110,296	8.1
Activities of extraterritorial organisations and bodies	53	0.0	29	0.0	51	0.0
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,368,167**	**100.0**

The Bank maintains a flexible policy towards its exposure to various industries, in principle avoiding exposure of more than 20% to a particular industrial sub-sector of the economy, and 30% in the case of the manufacturing sub-sector. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

Maturity

The following table sets forth an analysis of the Bank's loans by maturity:

	Audited As of 31 December				Unaudited As of 30 June	
	2014		2015		2016	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except percentages)					
Due within one year	433,158	39.8	409,737	32.0	458,049	33.5
Due within one to five years	129,743	11.9	189,618	14.8	205,275	15.0
Due beyond five years	526,468	48.3	679,997	53.2	704,843	51.5
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,368,167**	**100.0**

Loan Currencies

As of 31 December 2013, 2014 and 2015, 87.2%, 84.4% and 85.0%, respectively, of the Bank's loan portfolio were denominated in Pesos and 12.8%, 15.6% and 15.0%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars. As of 30 June 2016, 86.7% of the Bank's loan portfolio (net of unearned interest or discount) was in Pesos and 13.3% was in foreign currencies.

	Audited As of 31 December				As of 30 June	
	2014		2015		2016	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except Percentages)					
Peso	919,135	84.4	1,087,166	85.0	1,185,724	86.7
Foreign						
USD	167,156	15.3	186,452	14.6	176,353	12.9
Yen	885	0.1	852	0.1	1,094	0.1
Other Foreign Currency	2,193	0.2	4,882	0.3	4,995	0.3
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,368,167**	**100.0**

Interest Rates

As of 30 June 2016, a substantial portion of the Bank's total loan portfolio was on a floating interest basis. Loan pricing is set by the Bank's asset and liability committee on a weekly basis, and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The Bank sets interest rates for Peso-denominated loans based on the Philippine Dealing System Treasury Reference Rate 2 (**PDSTR-2**) rate and for U.S. dollar-denominated loans based on the U.S. dollar London Interbank Offer Rate. The margins on these interest rates, which range from 1% to 5%, are determined by reference to the credit risk of the relevant borrower.

The Bank's pricing policy with respect to its interest-bearing liabilities is also handled by the Assets and Liabilities Committee (**ALCO**) during its weekly meetings. CASA deposits typically pay no interest for deposits falling below a minimum maintaining balance. The basic rate of regular Peso savings account deposits that are above the minimum threshold is 0.25% per annum.

The Bank actively manages interest rate risk by monitoring current market interest rates and assessing the impact of changes in interest rates on the Bank's net interest income. See *"— Risk Management — Interest rate risk management*" below.

Size and Concentration of Loans

The BSP imposes a limit on the size of a bank's financial exposure to any single person or group of connected persons to 25% of the bank's net worth (the **Single Borrower's Limit** or **SBL**). This limit does not apply to the following loans: (a) those secured by obligations of the BSP or of the Government; (b) those fully guaranteed by the Government as to the payment of principal and interest; (c) those secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted credit rating agencies; (d) those to the extent covered by the hold-out or assignment of deposits maintained in the lending bank and held in the Philippines; (e) those under letters of credit to the extent covered by margin deposits; and (f) those which the Monetary Board may, from time to time, specify as non-risk items. As of 30 June 2016, the Bank's SBL was ₱50.0 billion. The Bank has complied with this SBL for all of its loans.

As of 31 December 2013, 2014 and 2015, the Bank's ten largest borrowers accounted for ₱137.0 billion, ₱151.9 billion and ₱165.8 billion, respectively, or 15.0%, 13.9% and 12.1% of the Bank's outstanding loan portfolio of ₱911.5 billion, ₱1,089.4 billion and ₱1,279.4 billion (excluding interbank loans). As of 30 June 2016, the Bank's ten largest borrowers accounted for ₱166.1 billion, or 12.1%, of the Bank's loan portfolio.

The following sets forth a breakdown of total loans by principal amount as of 30 June 2016:

Principal amount of loans (in Pesos)	**Percentage (per cent.)**
Less than 5,000,000	21.8
5,000,001 to 10,000,000	4.2
10,000,001 to 15,000,000	2.2
More than 15,000,000	71.8
Total	100.0

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to minimise credit risk with respect to a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. Where it has determined that collateralisation of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As of 31 December 2013, 2014, 2015 and 30 June 2016, approximately 42.0%, 37.0%, 26.1% and 26.4%, respectively, of total loans were extended on a secured basis. Approximately 39.0%, 42.3%, 45.6% and 46.9%, respectively, of these secured loans are backed by real estate mortgages for each period.

The Bank's general policy with respect to securing loans is to over secure. With respect to loans secured by real estate mortgages, in accordance with BSP guidelines, the Bank's policy is that the maximum value of such loans should not be in excess of 80% of the assessed value of the property provided as security for such loans. The Bank appraises real estate collateral using internal appraisers, but utilises external appraisers for loans that are syndicated or involve sharing of collateral among lenders.

Credit Rating/Scoring System

The Bank has credit rating/scoring systems in place to assess the credit risk associated with a prospective or existing loan account for both the corporate and consumer lending business. The Bank's credit rating system uses a combination of quantitative and qualitative factors, which generally assess the financial position of the borrower.

For all loans of ₱50.0 million or more for corporate borrowers and loans of ₱35.0 million or more for the Bank's middle-market borrowers, the Risk Management Group (**RMG**) will conduct the credit risk review directly. For those not within their coverage, the credit rating is conducted by the assigned Institutional Banking Group account officer. The Bank updates the rating of an existing loan account at least once a year, which is normally the credit renewal date. However, the Bank may adjust the credit rating within a shorter period if there are identified factors which could affect the borrower's credit quality, or the Bank becomes aware of any adverse development with respect to the borrower or secured collateral.

For the SME borrowers with loan facilities of ₱10.0 million and below, a Credit Scoring System is used to evaluate creditworthiness. It consists of factors related to both customer and collateral.

On the other hand, Application and Behavior scoring models are adopted for the consumer loans unsecured portfolio, namely Credit Card and Personal Loans. The scoring models are used for adjudication of new loan applications as well as in account management such as credit line increases and renewal. Pre-qualification scorecards are likewise used to mine the existing Bank depositors and SM Advantage customers for credit card issuance.

Credit Approval Process

Before the Bank approves any extension of credit, the Bank first identifies the needs of the prospective borrower, analyzes the appropriateness of the exposure and evaluates any inherent risks. The Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and assists in the preparation of the loan application together with the required documentary support. The account officer further determines whether a property appraisal is warranted and, if so, is involved in overseeing the appraisal process. The account officer also conducts bank checking and credit reviews of the prospective borrower with the assistance of the credit support units. For borrowers from the middle-market segments, the account officer will pay particular attention to validating the borrower's financial position from different information sources. For transactional lending, the account officer may focus more on the size and quality of cash flows from the transaction, and less on the financial position of the borrower itself.

The Executive Committee, which includes the Bank's Chairman, Vice Chairman, the President, a Bank Director and the head of RMG, undertakes the analysis and evaluation of the credit proposal based on the recommendations of the senior credit officers. The Executive Committee deliberates on the viability of the credit proposal in general, but, more particularly, on the appropriateness of the credit extension and risks involved.

Credit Monitoring and Review Process

Pursuant to the BSP's Manual of Regulations for Banks (the **Manual**), the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies with regard to prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the Bank has established credit support units under the RMG to review and monitor individual accounts within a particular portfolio to identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

The evaluation of the individual loan accounts culminates in the classification of the account. The classification indicates the degree or gravity of the perceived problems of the account reviewed. The reviewed loan accounts are classified in accordance with the standard classifications set forth in the Manual.

The review and recommended classification of a loan account are sent for comments to the assigned account officer and thereafter forwarded to the applicable unit head and respective heads of Corbank and Combank for further review. Either the Bank's President, Vice Chairman or RMG head may give final approval of a loan account's classification.

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, stockholders and their related interests (**DOSRI**). All such loans are on commercial, arm's length terms. The General Banking Law (Republic Act No. 8791) and BSP regulations require that the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 100% of the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. The amount of any loan to a DOSRI of the Bank, of which 70% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis.

As of 31 December 2013, 2014 and 2015, DOSRI loans accounted for ₱65.8 billion, ₱47.9 billion and ₱29.7 billion, respectively, or approximately 7.2%, 4.4% and 2.3% respectively, of the Bank's total loans. As of 30 June 2016, DOSRI loans accounted for ₱37.7 billion or approximately 2.8% of the Bank's total loans. Of those amounts, ₱64.5 billion, ₱46.4 billion, ₱28.1 billion and ₱35.9 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively.

Loan Loss Provisioning

The Bank classifies loans as non-performing in accordance with the guidelines of the BSP, which require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain.

For corporate and commercial loans, the Bank classifies non-performing loans based on four different categories established by the BSP, which correspond to levels of risk:

- "Loans especially mentioned" are loans which the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment;
- "Substandard" loans are those which the Bank believes involve a substantial and unreasonable degree of risk to the Bank;
- "Doubtful" loans are those for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable; and
- "Loss" loans are those which the Bank believes are impossible to collect or are worthless.

The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due under certain circumstances, including where there is defective documentation with respect to the loan. Once interest on a loan is past due for 90 days, the Bank will create a provision in respect of the interest accrued during the 90-day period and classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

The RMG monitors compliance with BSP regulations with regard to loan loss provisioning. The Bank reviews its risk assets on a portfolio basis at least annually and, since June 2004, by account on a monthly basis in accordance with prescribed policy guidelines and the relevant BSP categorisation.

The following is a summary of the risk classification of the Bank's aggregate loan portfolio (as a percentage of total outstanding loans):

	Audited					
	As of 31 December				As of 30 June	
	2014		2015		2016	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in ₱ millions, except Percentages)					
Classified						
Loans especially mentioned	15,472	1.5	19,560	1.6	10,622	0.8
Sub-standard	3,880	0.4	4,277	0.3	4,616	0.4
Doubtful	2,614	0.2	1,769	0.1	2,233	0.2
Loss	9,321	0.9	6,734	0.5	6,985	0.5
Total classified	31,287	2.9	32,340	2.6	24,456	1.9
Unclassified	1,033,074	97.1	1,192,178	97.4	1,284,615	98.1
Total	**1,064,361**	**100.0**	**1,224,518**	**100.0**	**1,309,071**	**100.0**

The Bank's allowance for loan impairments is made up of a specific component and a general unallocated component. For corporate loans, the specific component is based on the Bank's classification of individual loans as described above. The general component represents a blanket reserve required by the BSP, equivalent to 1% of the outstanding balance of unclassified loans other than restructured loans less non-risk loans, and 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured non-risk loans.

The Board has discretion as to how frequently it writes off its classified loans, provided that these are made against provisions for probable losses or against current operations. Prior BSP approval is required to write off a DOSRI loan account.

Past-due accounts of both Corbank and Combank are initially placed on a "watch list" for closer monitoring and supervision. Past-due loans are then referred to the Bank's Remedial Management Unit if the Bank has determined (i) such loans to be uncollectible, (ii) to terminate its relationship with the borrower or (iii) recovery of such loans will require special management.

Remedial Management

The Remedial Management Unit directly supervises the management of past due loans that are referred to it. For problem loans management, the Bank has two specialised remedial management units to handle corporate/commercial loans and consumer loans. A problem account is assigned to an account officer who evaluates, determines and proposes the appropriate remedial recourse available to the Bank. Commercial solutions instituted include restructuring, payment arrangements, reduction of loan to serviceable level via sale of collateral and/or unencumbered assets or *dacion en pago* (payment in kind). In case a commercial solution ceases to be feasible, the Bank undertakes legal action, through its legal department, for either foreclosure of loan collateral or criminal/civil collection suits.

Foreclosed assets and assets conveyed to the Bank via *dacion en pago* goes to Bank's ROPA Management Team which monitors redemption, possession and consolidation of acquired properties. From past due loans, acquired assets are classified as ROPA. Eventually, an acquired property goes up for sale signalling end of the remedial process.

Taking into account cash or non-cash payments that can be derived from the borrower, account officers review and continually assess impaired values of each problem account. Furthermore, they compute for the present value of an account's expected/potential collection to determine any impairment in value. The impaired value is then compared with the credit classification and booked provision. Any adjustment, if necessary, is made accordingly.

All remedial actions require approval of the Bank's Management Credit Committee or Executive Committee depending on the amount of obligation and/or complexity of remedial action. Disposition of the Bank's acquired assets, likewise requires approval of the Executive Committee.

Non-Performing Loans (NPL) and ROPA

The table below sets forth details of the Bank's NPLs, non-accruing loans, ROPA, non-performing assets (as described below), restructured loans and write-offs for loan losses for the specified periods:

	As of 31 December		As of 30 June
	2014	**2015**	**2016**
	(in ₱ millions, except ratios, which are in percentages)		
Gross non-performing loans[(1)]	16,298	14,983	16,371
Net non-performing loans[(1)]	1,287	3,388	5,104
Total loans[(1)]	1,211,527	1,393,547	1,430,039
Gross non-performing loans to total loans (%)[(1)]	1.3	1.1	1.1
Net non-performing loans to total loans (%)[(1)]	0.1	0.2	0.4
Non-performing loans[(2)]	14,197	15,790	17,218
Total loans	1,089,369	1,279,352	1,368,167
Total non-performing loans to total loans — excluding interbank loans (%)[(3)]	1.3	1.2	1.3
Total non-performing loan to total loans — including interbank loans (%)[(4)]	1.3	1.2	1.2
ROPA — net	8,847	7,278	7,610
Non-performing assets[(5)]	25,987	25,925	27,669
Non-performing assets as percentage of total resources (%)	1.4	1.3	1.3
Allowance for impairment of assets	29,695	29,083	29,176
Allowance for loan impairments	26,752	26,226	26,335
Allowance for ROPA impairments	2,943	2,857	2,841
Allowances for loan impairments as a percentage of total non-performing loans (%)	188.4	166.1	153.0
Allowances for impairment of assets as a percentage of non-performing assets (%)	114.3	112.2	105.4
Total restructured loans	1,415	1,974	1,831
Current	52	398	264
Past due	1,309	1,522	1,515
In litigation	54	54	52
Restructured loans as percentage of total loans (%)	0.1	0.2	0.1
Loans — written off	3,448	2,563	1,503

Notes:

(1) Per BSP Circular 772; includes Receivable from Special Purpose Vehicles (SPVs) presented under Other Resources

(2) Excludes Receivable from Special Purpose Vehicles (SPVs)

(3) Total non-performing loans divided by total loans excluding interbank loans.

(4) Total non-performing loans divided by total loans including interbank loans.

(5) Non-performing assets comprise of ROPA (gross) and non-performing loans.

The Bank classifies loans as past due upon the occurrence of certain non-payment events, and then reclassifies such loans as "non-accruing" or "non-performing" upon continuing non-payment or payment default, in accordance with BSP guidelines. In the case of loans requiring repayment of principal at maturity or scheduled payment of principal or interest due quarterly (or longer), failure to make such payment on the due date triggers non-performing classification. In the case of loans requiring payment of principal or interest on a monthly basis, continued failure to make payment for three months from the due date triggers non-performing classification.

As of 30 June 2016, the Bank's ten largest NPLs amounted to ₱3.9 billion or approximately 0.3% of the Bank's total loans.

Sectorial analysis of non-performing loans (NPLs)

The following table sets forth, as of the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

	As of 31 December				As of 30 June	
	2014	**per cent.**	**2015**	**per cent.**	**2016**	**per cent.**
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	366	2.6	620	3.9	884	5.1
Mining and quarrying	16	0.1	17	0.1	19	0.1
Manufacturing	2,616	18.4	2,559	16.2	3,764	21.9
Electricity, gas, steam and air-conditioning supply	159	1.1	27	0.2	31	0.2
Water supply, sewerage, waste management and remediation activities	10	0.1	4	0.0	15	0.1
Construction	181	1.3	200	1.3	234	1.4
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,337	16.5	2,499	15.8	2,797	16.2
Transportation and storage	96	0.7	89	0.6	111	0.6
Accommodation and food services activities	43	0.3	61	0.4	81	0.5
Information and communication	52	0.4	48	0.3	63	0.4
Financial and insurance activities	138	1.0	154	1.0	154	0.9
Real estate activities	412	2.9	464	2.9	419	2.4
Professional, scientific and technical services	173	1.2	194	1.2	180	1.0
Administrative and support services	124	0.9	195	1.2	221	1.3
Public administrative and defense; compulsory social security	14	0.1	8	0.1	13	0.1
Education	11	0.1	386	2.4	378	2.2
Human health and social work activities	23	0.2	58	0.4	59	0.3
Arts, entertainment and recreation	7	0.0	7	0.0	6	0.0
Other service activities	1,985	14.0	2,603	16.5	2,966	17.2
Activities of private household as employers and undifferentiated goods and services	5,432	38.3	5,595	35.4	4,823	28.0
Activities of extraterritorial organisations and bodies	2	0.0	2	0.0	1	0.0
Total	**14,197**	**100.0**	**15,790**	**100.0**	**17,218**	**100.0**

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non-performing category. Accrued interest arising from a loan account is classified according to the classification of the corresponding loan account. In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets. The Bank's non-performing assets principally comprise ROPA and NPLs.

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on a NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a dacion en pago arrangement.

In the six months ended 30 June 2016, the Bank sold ₱1.2 billion of acquired assets in ROPA. The Bank had a net ROPA of ₱9.0 billion, ₱8.8 billion and ₱7.3 billion, as of 31 December 2013, 2014 and 2015, respectively, consisting of various real estate properties and shares of stock in several companies. As of 30 June 2016, the Bank's net ROPA amounted to ₱7.6 billion, or 2.2% lower than the ₱7.8 billion as of 30 June 2015.

Under the current regulations, the Bank is required to conduct impairment testing on its acquired assets, which becomes the basis for the provisioning levels. The Bank's valuation reserves on ROPA amounted to ₱3.1 billion, ₱2.9 billion, ₱2.9 billion and ₱2.8 billion, as of 31 December 2013, 2014, 2015 and 30 June 2016, respectively.

MANAGEMENT

Board of Directors

The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. It is also responsible for the proper administration and management of the Bank's trust business.

The following table sets forth the persons who served as a Director of the Bank as at 30 June 2016:

Name	Age	Position	No. of Years as Director
Teresita T. Sy	65	Chairperson	39
Jesus A. Jacinto, Jr.	68	Vice Chairman	20
Christopher A. Bell-Knight	72	Director	first term: 5; 2nd term: 3
Jose F. Buenaventura	81	Independent Director	3
Jones M. Castro, Jr.	67	Independent Director	4
Dioscoro I. Ramos	57	Independent Director	seven months
Antonio C. Pacis	76	Director	12
Josefina N. Tan	71	Director	first term: 4; second term: 9
Nestor V. Tan	58	Director/President and CEO	18
Jimmy T. Tang	80	Independent Director	32
Gilberto C. Teodoro, Jr.	52	Independent Director	2

Teresita T. Sy, 65, Filipino, is the Chairperson of the Bank and was first elected to the Board in 1977. Concurrently, she serves as the Chairperson, Vice Chairperson, and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., Generali Pilipinas Holding Company, Inc., Generali Pilipinas Life Assurance Company, Inc., and Generali Pilipinas Insurance Co., Inc. Ms. Sy is the Vice Chairperson of SMIC and adviser to the Board of SM Prime Holdings, Inc. She also sits as Chairperson, Vice Chairperson and/or Director of such companies as Multi-Realty Development Corporation, Bellshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc., Prime Metroestate Inc. (formerly Pilipinas Makro, Inc.) and First Asia Realty Development Corp. A graduate of Assumption College, she brings to the board her varied expertise in banking and finance, retail merchandising, mall and real estate development.

Jesus A. Jacinto, Jr., 68, Filipino, has been elected Vice Chairman of the Bank since May 1996, and is concurrently the Chairman and President of BDO Insurance Brokers, Inc. He also heads Jaces Corp. as Chairman and President; and Janil Realty, Inc. and JAJ Holdings, Inc., as President. He is likewise Director of Bayer Phil., Inc. Formerly, he was Director and Executive Vice President of CityTrust Banking Corp.; Director of CityTrust Investments Phil. and CityTrust Finance Corp.; and Vice President and Managing Partner of Citibank N.A. He holds a Bachelor's degree in Business Administration from Fordham University in New York City and MBA (International Business) from Columbia University, New York.

Nestor V. Tan, 58, Filipino, was elected President of the Bank in June 1998. He was also appointed as Chief Executive Officer of BDO on April 25, 2014. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Capital & Investment Corporation, BDO Insurance Brokers, BDO Leasing and Finance, Inc. (PLC), BDO Private Bank, Inc. and BDO Remit (USA), Inc. He is also a Director in Generali Pilipinas Life Assurance Company, Inc., Generali Pilipinas Insurance Co., SM Keppel Land, Inc., Asian School of Business & Technology, Bankers Association of the Philippines as well as directorship in the Advisory Board of Mastercard Worldwide. He also concurrently holds chairmanship of BDO Strategic Holdings, Inc. and Megalink, Inc. He is a Trustee of the following: BDO Foundation, Inc., Pinoy Me Foundation, De La Salle University Board of Advisors, Asian Institute of Management and Philippine Business for Education. Mr. Tan had a 15 year banking career with the Mellon Bank (now Bank of New York – Mellon) in Pittsburgh, PA, the Bankers Trust Company (now Deutsche Bank) in New York and the Barclays Group in New York and London. Prior to joining the Bank, he was the Chief Operating Officer for the Financial Institution Services Group of BZW, the investment banking subsidiary of the Barclays Group. He holds a Bachelor 's degree in Commerce from De La Salle University and received his MBA from Wharton School, University of Pennsylvania.

Christopher A. Bell-Knight, 72, Canadian, was elected to the Board of BDO Unibank, Inc. on 27 July 2013. Until his election as Director, Mr. Bell-Knight has been acting as Adviser to the Board of BDO Unibank for more than two years. He had also previously served as Director of BDO Unibank from May 2005 until September 2010. He is an Independent Director of Dumaguete City Development Bank Philippines since 2007. He was formerly a Director of Solidbank Corp. and Vice President and Country Head of the Bank of Nova Scotia. He has had over 40 years of banking experience in England, Canada, and Asia of which 35 years were spent in credit and marketing. Mr. Bell-Knight is an Associate of the Chartered Institute of Bankers – British, an Associate of the Institute of Canadian Bankers, and a Fellow of the Institute of Corporate Directors. He studied at Frome Grammar School, Somerset, England.

Jose F. Buenaventura, 81, Filipino, was elected Independent Director of BDO Unibank on April 19, 2013. He is a Senior Partner of the Romulo Mabanta Buenaventura Sayoc & De Los Angeles Law Offices since 1976. He is President and Director of Consolidated Coconut Corporation and Milano & Co., Inc. He is likewise Director and Corporate Secretary of 2B3C Foundation, Inc. and Peter Paul Philippine Corporation. He is also a Member of the Board of Cebu Pacific Air, GROW, Inc., GROW Holdings, Inc., La Concha Land Investments Corporation, Melco Crown (Philippines) Resorts Corporation, Philippine First Insurance Co., Inc., Philam Plans, Inc., Techzone Philippines, Inc., The Country Club, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc. He is the Corporate Secretary of Capital Managers and Advisors, Inc. Atty. Buenaventura holds the degrees of Bachelor of Arts and Bachelor of Laws from the Ateneo de Manila University, and Master of Laws from Georgetown University Law Center in Washington, D.C.

Jones M. Castro, Jr., 67, Filipino, is an Independent Director of the Bank since April 2012. Mr. Castro has 39 years of banking expertise, with 32 years of international banking experience. From 2009 to 2011, Mr. Castro was the Area Head for South and Southeast Asia of the Wells Fargo Bank, San Francisco. As Area Head, Mr. Castro managed 12 countries, 11 overseas offices, 102 team members and US$3 billion in loans. From 2006 to 2009, Mr. Castro was Regional Head for Latin America, including the Caribbean, of Wachovia Bank, Miami, and managed 25 countries, three overseas offices, 30 team members and US$1.8 billion in loans. From 2005 to 2006, he was Executive Vice President and International Banking Group Head of the Union Bank of California, San Francisco. Mr. Castro is currently a Trustee of PhilDev USA and was formerly a director of Merritt Community Capital, Oakland and instructor at the University of the Philippines MBA Program, Accounting and Finance in 1976-1977. Mr. Castro obtained his Bachelor's Degree in Applied Mathematics, cum laude, from Harvard University. He received his Masters in Business Administration, Accounting and Finance, from Stanford University.

Antonio C. Pacis, 76, Filipino, was elected Director of BDO in June 2004. He currently serves both the Bank and BDO Capital & Investment Corporation as a director. He has been in law practice since 1967 counseling bank and corporate clients in the areas of regulatory, business, corporate and trust law, and individuals in the areas of family law and estate plans. In the course of his practice, he has served in various capacities in companies upon invitation of clients. He holds degrees from the Ateneo de Manila University (AB), from the Ateneo School of Law (LLB) and from the Harvard Law School (LLM).

Dioscoro I. Ramos, 57, Filipino, was elected Director of the Bank in January 2016. Mr. Ramos is the Chief Information Officer (CIO) of RY& S Investments Ltd., Hong Kong since 2011. He was Head of Asia Financials Investment Research of Goldman Sachs Asia, LLC, Hong Kong from 1994 to 2011 and appointed Managing Director in 1998 and Partner in 2006. Prior to this, he was with Mellon Bank, N.A. with postings in Pittsburgh, Philadelphia, New York, and Hong Kong. A CPA, Mr. Ramos holds a bachelor's degree in Business Administration and Accountancy, cum laude, from the University of the Philippines; and a Master's Degree in Business from Wharton University, University of Pennsylvania.

Josefina N. Tan, 71, Filipino, was elected Director of the Bank in July 2007. Concurrently, she serves as President of BDO Private Bank, Inc. She is also the Chairman of the Board of Miriam College and a Trustee in both Development Center for Finance and Laura Vicuña Foundation. She was a Director of the Bank from 2001 to August 2005. She was also Executive Vice President of the former Far East Bank & Trust Co.; Director and President of FEB Leasing & Finance Corp.; Executive Director and Trustee of FEB Foundation, Inc.; and Executive Vice President of FEB Investments, Inc. until 2000. She was a director of EPCIB from September 2005 until its merger with the Bank in May 2007.

Jimmy T. Tang, 80, Filipino, has been an Independent Director of BDO since 27 July 2002. He served as a regular director of BDO from 1984 until his election as Independent Director. He is the President and Chairman of the Board of the AVESCO Group of Companies. He is currently an Honorary President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII), and was FFCCCII President for two terms from 1993 to 1997. In addition, he is presently an Honorary Adviser of the Federation of Electrical & Electronics Suppliers & Manufacturers of the Philippines, Inc. (PESA) and PESA Foundation. He was the ninth President of PESA and the first Chairman of the PESA Foundation, which he served for seven years. He obtained his Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology which conferred him the “Top Outstanding Mapuan for Entrepreneurship” award in 1987.

Gilberto C. Teodoro, Jr., 52, Filipino, was elected Independent Director of BDO on 25 April 2014. He is currently Chairman of Suricon Resources Corporation and PNP Foundation, Inc. He is also a member of the Board of Directors of Philippine Geothermal Production Company, Incorporated, Canlubang Sugar Estate and member of the Board of Advisors of Seawood Resources, Incorporated. He served as Secretary of National Defense from 2007 to 2009 and was a Member of the Philippine House of Representatives from 1998-2007. He trained under former Solicitor General Estelito P. Mendoza and was involved in a wide range of issues – constitutional, corporate, criminal, civil, and adminstrative and in pro-bono work to assist various indigent litigants from 1990 to 1997. Mr. Teodoro holds a Bachelor of Science in Commerce degree majoring in Management of Financial Institutions from the De La Salle University; Bachelor’s degree in Law (LLB) from the University of the Philippines and Masters in Law degree (LLM) from the Harvard Law School, USA. He placed first in the Philippine Bar Examinations of 1989 and was admitted to the State Bar of New York.

The following table shows the shareholdings of each current Director in the Bank as at 30 June 2016:

Name	No. of Shares	% of Total Shares
Teresita T. Sy	330,149	0.01%
Jesus A. Jacinto, Jr.	274,666	0.01%
Nestor V. Tan	6,926,209	0.19%
Christopher A. Bell-Knight	103	0.00%
Jose F. Buenaventura (Independent Director)	1	0.00%
Jones M. Castro, Jr. (Independent Director)	1	0.00%
Disocoro I. Ramos (Independent Director)	150,000	0.00%
Antonio C. Pacis	4,230	0.00%
Josefina N. Tan	343,876	0.01%
Jimmy T. Tang (Independent Director)	14,838	0.0004%
Gilberto C. Teodoro, Jr. (Independent Director)	1	0.0000%

The aggregate compensation paid by the Bank to its Directors for the years ended 31 December 2013, 2015 and 2015 and for the six months ended 30 June 2016 was ₱26.0 million, ₱26.1 million, ₱30.6 million and ₱16.2 million, respectively.

As of 31 December 2013, 2015, 2015 and 30 June 2016, loans from the Bank to Directors totaled nil, ₱1.9 million, nil and nil, respectively. All loans to Directors are made on arm’s length commercial terms.

Senior Management

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's key officers:

Name	**Age**	**Position**
Nestor V. Tan	58	President and Director
Josefina N. Tan..	71	President, BDO Private Bank, Inc.
Walter C. Wassmer	59	Senior Executive Vice President, Institutional Banking
Jaime C. Yu	58	Senior Executive Vice President, Branch Banking
Ador A. Abrogena	63	Executive Vice President, Trust and Investments
Antonio Q. Chua………………………	63	Executive Vice President, Global Operations
Lucy Co Dy	61	Executive Vice President, Comptrollership
Pedro M. Florescio III	62	Executive Vice President, Treasury
Eduardo V. Francisco	55	Executive Vice President, President/Director — BDO Capital & Investment Corporation
Ricardo V. Martin	59	Executive Vice President, Information Technology
Rolando C. Tanchanco	54	Executive Vice President, Consumer Lending
Dennis B. Velasquez	63	Executive Vice President, Central Operations
Evelyn L. Villanueva	58	Executive Vice President, Risk Management
Alvin C. Go	56	Senior Vice President, Legal Services
Roberto E. Lapid.	60	Senior Vice President, BDO Leasing and Finance, Inc.
Estrellita V. Ong	61	Senior Vice President, Internal Audit
Edwin Romualdo G. Reyes......................	57	Senior Vice President, Transaction Banking
Luis S. Reyes, Jr.	59	Senior Vice President, Investor Relations and Corporate Planning
Evelyn C. Salagubang	53	Senior Vice President, Human Resources
Maria Theresa L. Tan	48	Senior Vice President, General Manager, BDO Insurance Brokers, Inc.
Rebecca S. Torres....................................	64	Senior Vice President, Corporate Compliance, Legal and Internal Audit
Renato Vergel de Dios.............................	63	Chief Executive Officer and Director, BDO Life

Walter C. Wassmer, Filipino, is Senior Executive Vice President of the Bank's Institutional Banking Group. He is concurrently the Chairman of BDO Elite Savings Bank, Inc.; and Director of BDO Leasing and Finance, Inc. and MDB Land, Inc.

Jaime C. Yu, Filipino, is Senior Executive Vice President. He holds a Bachelor of Arts degree in Economics from De La Salle University and is a MBA graduate from the Ateneo de Manila University. He has extensive experience in commercial, corporate, and investment banking from the International Corporate Bank and Union Bank of the Philippines, where he held various positions up to his appointment as First Vice President and Region Head for the Manila-Pasay area. He joined BDO in December 1997 and is currently the Group Head of Branch Banking where he manages the entire branch network.

Ador A. Abrogena, Filipino, is Executive Vice President and Head of Trust and Investments Group. He holds a Bachelor's degree in Chemical Engineering from De La Salle University and a Master's degree in Business Economics from the University of Asia and the Pacific. He was previously connected with First Pacific Securities, Philippines, Inc. as Vice President and with Private Development Corporation of the Philippines as Assistant Vice President.

Anthony Q. Chua, Filipino, has been elected Executive Vice President since June 2014, in charge of Global Operations. He also concurrently holds directorships in BDO Remit (Canada) Ltd. and BDO Remit (Japan) Ltd. His banking experience spans thirty (30) years with stints in Citibank N.A., Philippine Bank of Communications, and Philippine National Bank/Allied Banking Corporation, holding various positions in relationship management, risk management, transaction banking, product development, trust, and operations. He was also a Partner at SGV & Co., specializing in Bank Risk Management and Process Management. He holds dual degrees of Bachelor of Arts and Bachelor of Science in Commerce from De La Salle University. He received his MBA and Ph. D. in Finance from Michigan State University.

Lucy Co Dy, is Executive Vice President and Comptroller. She is also Director of BDO Remit Limited, Express Padala Hong Kong Limited, BDO Remit (Italia), S.p.A., Express Padala Frankfurt GmbH, and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.) effective March 25, 2014; Director and Treasurer of BDO Strategic Holdings, Inc., and; Trustee and Treasurer of BDO Foundation, Inc.; and Chairperson and President of The Executive Banclounge, Inc. and The Sign of the Anvil, Inc. She was a Director of PCIB Securities, Inc. until January 27, 2016. She holds a Bachelor's degree in Accounting from the University of Santo Tomas.

Pedro M. Florescio III, Filipino, is Executive Vice President and Treasurer (2004). He is also a Director of BDO Elite Savings Bank (formerly GE Money Bank, Inc.) (2009) and One Network Bank, Inc. (A Rural Bank) (2015). He holds a Bachelor's degree in Business Administration from the University of the East, Manila and had attended numerous treasury programs and trainings in major financial centers. He has more than twenty-five (25) years of experience in treasury functions within and outside the country. He was previously connected with Equitable PCI Bank, Inc., Far East & Trust Company, Dao Heng Bank Ltd. (Hong Kong), International Bank of Asia (Hong Kong), Chemical Bank (Manila), Societe Generale (Manila), European Asian Bank (Manila), and PCI Bank. He was the past President of MART (The Money Market Association of the Philippines, year 2005) and ACI Philippines (The Financial Markets Association, year 1997, 1998, and 2007).

Eduardo V. Francisco, Filipino, is Executive Vice President. He is President/Director of BDO Capital & Investment Corporation, the investment banking arm of BDO Unibank,Inc. He is also the Co-Chairman of the Capital Market Development Council (CMDC) of the Philippines, Vice Chairman for International Association of Financial Executives Institutes (AFEI), Treasurer/Trading Nominee of BDO Securities Corporation, and Chairman of Averon Holdings Corp. He also sits on the boards of Management Association of the Philippines (MAP), UP-Development Center for Finance (UPDCF), CIBI Foundation, Valle Verde Country Club, Inc. (VVCC), and International School of Manila. He is also a fellow of the Institute of Corporate Directors (ICD), Shareholders Association of the Philippines (SharePhil), AFC Merchant bank, and a member of Rotary Makati West and the PLDT Bike King Triathlon Team. He was formerly the President of the MAP, Financial Executives Institute of the Philippines (FINEX), Wharton-Penn Club, Federation of Valle Verde Associations, First Valle Verde Association, Inc., and BDO Securities Corporation. He was also a previous member of Capital Markets Committee of the Bankers Association of the Philippines and the Strategic Advisory Committee of the Philippine Stock Exchange and the Makati Business Development Council. He was also previously on the boards of Foundation for Filipino Entrepreneurs (FFE), LGU Guarantee Corp., Investment Houses Association of the Philippines (IHAP) and BDO Strategic Corporation. Mr. Francisco has worked with other financial institutions in New York and Hong Kong. He holds a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania and Bachelor's degree in Business Administration from the University of the Philippines. He is also a recipient of the Distinguished Alumnus Award from the U.P. College of Business Administration.

Ricardo V. Martin, Filipino, is Executive Vice President and Head of the Information Technology Group. He is also a Director of BDO Remit (Italia), S.p.A., BDO Remit (USA), Inc. and BDORO Europe Ltd. Prior to this, he was Executive Vice President for Corporate Compliance, and administratively oversaw the Corporate Secretary's Office, Anti-Money Laundering Unit, Legal Services, Compliance, Corporate Governance Office and Internal Audit. Previously, he served as Chief Finance Officer & Executive Vice President for Equitable PCI Bank, Inc. Earlier, he was the Chief Finance Officer of Solidbank Corporation. He is a graduate of the Management Engineering Program of the Ateneo de Manila University.

Edwin Romualdo G. Reyes, Filipino, is Executive Vice President of BDO Unibank,Inc. and Group Head for the Transaction Banking Group. Mr. Reyes has more than twentyfive (25) years of experience in the banking industry. He was previously Managing Director and Global Head of Depositary Receipts at Deutsche Bank Trust Company Americas, New York, USA (Deutsche Bank) from 2006 to 2014. Mr. Reyes also served Deutsche Bank as Director and Global Head of DR Strategies Initiatives and Channel partners from 2001 to 2006 and Director & Global Head of Intermediaries, Corporate Trust & Agency Services from 1999 to 2001. Prior to that, he was Vice President, Capital Markets Trust Services at IBJ Whitehall Financial Services, New York, USA from 1998 to 1999. Mr. Reyes also serves on the board of the University of the Philippines Industrial Engineering Alumni Association (UPIEAA). He holds a Master's Degree in Business Administration, major in Finance/Money and Financial Markets from Columbia University, Graduate School of Business in New York, USA. Mr. Reyes graduated *Cum Laude* from the

University of the Philippines, with a degree of Bachelor of Science in Industrial Engineering and Operations Research.

Rolando C. Tanchanco, Filipino, is Executive Vice President for Consumer Lending. He holds a Bachelor's degree in Business Economics from the University of the Philippines. He acquired his MBM at the Asian Institute of Management. Mr. Tanchanco joined BDO to head the BDO's Consumer Lending. Prior to his joining BDO, Mr. Tanchanco was President of Philam Savings Bank and Head of AIG Credit Card. He is currently a Director of BDO Elite Savings Bank, Inc. and Trans Union Phils.

Dennis B. Velasquez, Filipino, is Executive Vice President for Central Operations. He is also a Director of Banco de Oro Savings Bank, Inc. and the Executive Banclounge, Inc. and the Sign of the Anvil. He was Equitable PCI Bank, Inc.'s Operations Group Head from May 2006 until its merger with BDO in May 2007. He served in 2000 as the Integration Manager for Retail Banking and was Retail Banking Group Head from March 2002 to April 2006. He has been with the Bank since August 1995. He is also a Director of Philippine Clearing House Corporation, and Chairman and President of Denmar Property Managers, Inc. He obtained his Bachelor of Science degree in Industrial Engineering at the University of the Philippines and pursued MBA studies at the Ateneo Graduate School of Business.

Evelyn L. Villanueva, Filipino, is Executive Vice President of BDO's Risk Management Group, and is BDO's Chief Risk Officer. She is also the Chairperson and Chief Executive Officer of Mabuhay Vinyl Corporation. She holds a Bachelor degree in Statistics from the University of the Philippines. She obtained her Master in Business Management (MBM) degree from the Asian Institute of Management. She has over thirty (30) years of banking experience in corporate banking and enterprise-wide risk management covering credit, market, liquidity, interest rate and operational risk management. She started out as a management trainee in Citytrust Banking Corporation and was connected with HSBC as Senior Vice President for Credit Risk Management before joining BDO.

Estrellita V. Ong, Filipino, joined BDO in 2012 as Senior Vice President for the Internal Audit Division heading Branches Audit. In 2013 April, the Board approved and confirmed her designation as the Unibank group's Chief Internal Auditor (CIA). She was formerly connected with Security Bank Corporation retiring as its CIA. Prior to being a CIA, she had held position in Security Bank as Assistant Controller and Executive Assistant to the Chairman handling the Centro Escolar University Finance portfolio. She was also formerly a Director of the 6776 Ayala Condo Corp. and Corporate Secretary of the Eastman Enterprises Corp. Prior to joining the bank mainstream, she had held Controllership position in Evergreen Shipping Corp.'s General Agent's office and Pioneer Intercontinental Insurance. She had varied experience also in manufacturing being General Manager and Treasurer of several Import/Export businesses subcontracting for branded US luggage and apparels. She is a Certified Public Accountant with a Bachelor of Science degree in Business Administration from the University of the East – Recto.

Luis S. Reyes, Jr., Filipino, is Senior Vice President for Investor Relations and Corporate Planning. He is concurrently a Director of BDO Strategic Holdings, Inc. He is also a Director and Treasurer of BDO Leasing and Finance, Inc. and BDO Rental, Inc. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines. He was First Vice President of Far East Bank & Trust Company, Trust Banking Group before joining BDO.

Evelyn C. Salagubang, Filipino, is Senior Vice President. She assumed the position of Group Head for Human Resources (HR) of the Bank in July 2011. She was formerly the Head of Human Resources of American Express Savings Bank, with oversight HR role over the American Express International, Inc., and American Express Bank Philippines. Prior to joining BDO, she was the HR Manager for Kraft Foods Philippines, Inc. She holds a degree in Psychology from Assumption College and completed a Diploma Program in Human Resource Management from the same institution.

Maria Theresa L. Tan, Filipino, is Senior Vice President. She is General Manager of BDO Insurance Brokers, Inc. (BDOI). She has had more than two (2) decades of experience in sales, marketing/product management, and general management in the consumer, services, and insurance industries. She graduated from the Ateneo de Manila University with a degree in Business Management, Minor in Marketing. Prior to joining BDO, she was the General Manager of International SOS, Philippines, Inc. She joined the Bank in July 2009.

Rebecca S. Torres, Filipino, is Senior Vice President and Chief Compliance Officer of BDO Unibank, Inc. effective May 1, 2013 covering Regulatory, Anti-Money Laundering (AML) and Trust Compliance. Previous positions held were Assistant Corporate Secretary of BDO and concurrent Senior AML Officer and Head of the AML Unit since January 1, 2011 up to April 30, 2013. She was also previously the Assistant Corporate Secretary of various BDO subsidiaries such as BDO Leasing & Finance, Inc., BDO Private Bank, Inc., BDO Rental, Inc., Armstrong Securities, Inc., and Equimark-NFC Development Corp. She was also the Assistant Corporate Secretary and Trustee of BDO Foundation, Inc. She was also the Corporate Secretary of PCIB Securities, Inc., BDO Strategic Holdings Inc., and the Sign of the Anvil, Inc. She was formerly the Chief of Staff of the President involved in project management for the Bank's merger activities. She is a Certified Public Accountant and a graduate of St. Theresa's College, Quezon City with a degree of Bachelor of Science major in Accounting. She has completed the Advanced Bank Management Program of the Asian Institute of Management.

Renato A. Vergel De Dios, 63, Filipino, is CEO/Director of BDO Life. He holds a Bachelor of Science degree in Mathematics from Ateneo de Manila University and an MS Managment degree (Sloan Program) from Stanford University. He has extensive experience in life insurance management - EVP - Life Sales and Operations at Philippine American Life Insurance Co. (1974 - 1995) and President & CEO at Manulife Philippines (1995 - 2006). He was appointed President & CEO for BDO Life in 2009.

Involvement in Legal Proceedings

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any Director, nominee for election as Director, Senior Management, underwriter or controlling person of the Bank:

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

(ii) any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(iii) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;

(iv) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organised trading market or self-regulatory organisation, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

(v) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Stock Option Plan

The Bank has established a stock option plan applicable to its senior officers (from vice-president level onwards). The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by the management. The amount of benefits is determined based on the Bank's performance in the preceding year and amortised over five years starting from the date of the approval of the Board.

Corporate Governance

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

The Executive Committee. The Executive Committee acts on behalf of the Board as the main approving body for Bank exposures, particularly for the approval/confirmation of credit proposals, investments and disposal of acquired assets and other projects or initiatives to enhance the Bank's operating and service delivery capabilities.. It meets at least once a week. The committee is chaired by Teresita T. Sy. Its other members are Nestor V. Tan, Jesus A. Jacinto, Jr., Josefina N. Tan, Antonio N. Cotoco and Guia C. Lim.

Board Audit Committee. The Audit Committee provides oversight of the internal and external audit functions and ensures both the independence from management of internal audit activities as well as the compliance with the regulations governing accounting standards on financial reporting. It approves the annual audit plan, the annual audited financial statements, and the analysis of quarterly results of operations as submitted by the Internal and External Auditor. It also evaluates strategic issues relating to plans and policies, financial and system controls, and methods of operation for adequacy and improvements. The committee is chaired by Jose F. Buenaventura. Its other members are Jones M. Castro, Jr. and Jimmy T. Tang with Corazon S. de la Paz-Bernardo, Christopher A. Bell-Knight and Jesus A. Jacinto, Jr. as advisers.

Compensation Committee. The Compensation Committee provides oversight on directors' compensation and remuneration of senior management consistent with the Bank's culture and strategy, effectively aligned with prudent risk taking and commensurate with corporate and individual performance. It also ensures consistency of the compensation policies and practices across the Group. It meets at least once annually. The committee is chaired by Jimmy T. Tang. Its other members are Jesus A. Jacinto, Jr., Josefina N. Tan and Teresita T. Sy.

Corporate Governance Committee. The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Bank and its subsidiaries and affiliates. Annually, it conducts the performance self-evaluation of the Board of Directors, its committees, executive management and peer evaluation of directors. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. In 2012, an annual performance review of the Board as a whole, the Committees, individual directors and senior management was conducted using enhanced assessment questionnaires to measure their effectiveness. A Group Governance Oversight Framework for all subsidiaries and affiliates was also adopted and implemented to ensure compliance with established governance policies and practices. Likewise, the education program focusing on effective risk governance for the Board was conducted. The committee is chaired by Jones M. Castro, Jr. Its other members are Jesus A. Jacinto Jr., Jimmy T. Tang and Christopher A. Bell-Knight.

Nominations Committee. The Nominations Committee leads the process for identifying and recommending candidates for appointment as Directors and for other key positions giving full consideration to succession planning and the leadership needs of the Bank. It recommends the composition and chairmanship of the various committees. It reviews the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and recommends changes if necessary. The committee is chaired by Josefina N. Tan. Its other members are Jose F. Buenaventura and Jimmy T. Tang.

Risk Management Committee. The Risk Management Committee is responsible for the development of the Bank's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimising the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed. The committee is chaired by Jones M. Castro, Jr., with Nestor V. Tan, Josefina N. Tan and Christopher A. Bell-Knight as members.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, the investment, reinvestment and disposition of funds or property, offering of new products and services, establishment and renewal of lines and limits with financial institutions, investment outlets and counterparties, accepts and closes trust/other fiduciary accounts. It evaluates trust and other fiduciary accounts at least once a year and reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position and the risk management reports. The committee is chaired by Antonio C. Pacis. Its other members are Gilberto C. Teodoro, Jr., Nestor V. Tan, Dioscoro I. Ramos and Ador A. Abrogena.

Information Technology (IT) Steering Committee. The IT Steering Committee provides oversight and governance over the Bank's IT functions including approvals of information technology-related policies and practices of the Bank and applicable guidelines. It informs the Board of both internal and external IT-related developments and activities, potential challenges and risks, progress versus strategic objectives and major IT projects. It approves and endorses to the Board IT-related best practices, strategic plans, policies and procedures. The committee is chaired by Gilberto C. Teodoro, Jr. Its other members are, Nestor V. Tan and Ricardo V. Martin.

Related Party Transactions Committee. The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Bank and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Bank's significant transactions with related parties. The committee is chaired by Jose F. Buenaventura. Its other members are Jimmy T. Tang and Jones M. Castro, Jr., with Jesus A. Jacinto, Jr. as adviser.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. *Corporate Governance Asia* also recognised included the Bank in its list of Asia's Best CSR, Best Investor Relations Company and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with a subsidiary, and with certain directors, officers, stockholders and related interests. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk.

For further information on the Bank's related party transactions, including detailed breakdowns of amounts receivable from related parties and the income and expenses relating to related party transactions, see Note 24 to the Bank's audited financial statements as of and for the years ended 31 December 2013, 2014 and 2015 and Note 21 to the Bank's unaudited interim condensed financial statements as of and for the six months ended 30 June 2016.

The Bank has not included the volume of transactions and maturity dates in the audited financial statements since these loans do not have a material effect on the total loan portfolio and are short term in nature.

DOSRI Loans and Deposits

The following table sets out certain information relating to the Bank's DOSRI loans as of the dates indicated:

	As of 31 December			As of 30 June
	2013	2014	2015	2016
	(in ₱ millions, except percentages)			
Total DOSRI loans	65,774	47,852	29,684	37,653
Per cent. of DOSRI loans to total loans	7.2	4.4	2.3	2.8
Per cent. of unsecured DOSRI loans to total DOSRI loans	5.9	6.7	3.9	3.1

On 31 January 2007, the BSP issued Circular No. 560, imposing lower ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. See "*Banking Regulation and Supervision —Loans to DOSRI*".

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loan transactions with a subsidiary and with certain DOSRI. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On 31 January 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the lending bank's/ quasi-bank's net worth, and the unsecured portion shall not exceed 5% of such net worth. Further, the total outstanding exposures to all subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank/quasi-bank. The said Circular is effective 15 February 2007 and the Bank is in compliance with such regulations.

BSP Circular No. 423, dated 15 March 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated 4 January 2005 clarifying the definition of stockholders.

On 12 May 2009, BSP issued Circular No. 654 allowing a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of 25% of net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed 12.5% of such net worth, provided further that these subsidiaries and affiliates are not related interests of any director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, or officer or stockholder sits on the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank. The Bank is in compliance with such regulations.

On 25 January 2013, BSP issued Circular No. 785 amending provisions of the Manual on individual and aggregate ceilings on loans, other credit accommodation and guarantees to DOSRI. The amendment relates to the additional exclusions from the individual and aggregate ceilings. Under the amendment, the portion of loan and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank, was excluded from computing the individual ceiling. For the aggregate ceiling, the amendment excluded the following items (a) loans, other credit accommodations and advances to officers in the form of fringe benefits granted in accordance with existing regulations; (b) loans, other credit accommodations and guarantees extended by a cooperative bank to its cooperative shareholders; and (c) the portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Last 14 December 2015, the BSP issued Circular 895, Series of 2015 setting guidelines on related party transactions to further strengthen oversight and implement effective control systems for managing exposures that may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders. On 23 June 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates by raising the ceiling on exposures of a bank's subsidiaries and affiliates to qualified infrastructure projects needed to support economic growth.

The following table shows information relating to DOSRI accounts of the Bank as of 31 December 2013, 2014 and 2015, and the balance as of the six months ended 30 June 2016:

	As of 31 December			As of 30 June
	2013	**2014**	**2015**	**2016**
Total outstanding DOSRI accounts (in ₱ millions)	65,773	47,852	29,684	37,653
Per cent. of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	-	-	-	-
Per cent. of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	7.2	4.4	2.3	2.8
Per cent. DOSRI accounts to total loans	7.2	4.4	2.3	2.8
Per cent. of unsecured DOSRI accounts to total DOSRI loans	5.9	6.7	3.9	3.1
Per cent. of past due DOSRI accounts to total DOSRI loans	0.0	0.0	0.0	0.0
Per cent. of nonperforming DOSRI accounts to total DOSRI loans	0.0	0.0	0.0	0.0

The year-end balances as of 31 December 2013, 2014 and 2015, and the balance as of the six months ended 30 June 2016 in respect of subsidiaries included in the Bank's financial statements are as follows:

	As of 31 December			As of 30 June
	2013	**2014**	**2015**	**2016**
			(in ₱ millions)	
Loans and receivables	14,342	22,263	47,135	51,452
Deposit liabilities	28,201	28,194	60,806	60,549

The income and expenses for the years ended 31 December 2013, 2014 and 2015, and for the six months ended 30 June 2016 in respect of subsidiaries included in the Bank's financial statements are as follows:

	2013	**2014**	**2015**	**Six months period ended 30 June 2016**
		(in ₱ millions)		
Interest income	2,175	2,712	3,608	2,755
Interest expense	429	631	927	695

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

THE PHILIPPINE BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Issuer, the Lead Arranger, the Dealers or any of their affiliates or advisers.

Introduction

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as of 30 June 2016, the commercial banking sector, comprising universal and commercial banks, consisted of 41 banks, of which 21 were universal banks and 20 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 20 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 13 were branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As at 30 June 2016, there were 64 thrift banks.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 30 June 2016, there were 513rural and cooperative banks.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**), and AI-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalisation of the industry, and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. The General Banking Law further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As at 31 March 2015, there were 14 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, and as at 31 March 2015, they accounted for 10.7% of the total resources of the Philippine banking system. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalisation, and to the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular "the suspension of the grant of new banking licenses or the establishment of new banks under the MORB is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalised starting l January 2018."

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as at 30 June 2016:

Name	Market Capitalisation[1]	Total Capital[2]	Total Assets[2]	Loans and Receivables-net[2]	Customer deposits[2]	No. of Branches[3]
			(in ₱ millions)			
BDO Unibank, Inc.	408,489	211,136	2,155,609	1,417,546	1,771,643	1,052
Metropolitan Bank & Trust Co.	287,329	208,852	1,730,944	920,470	1,257,509	945
Bank of the Philippine Islands	383,074	163,425	1,584,587	904,385	1,326,778	824
Philippine National Bank	71,826	109,902	712,426	391,340	535,282	670
China Banking Corporation	76,077	62,482	555,547	324,026	462,625	524

Notes:

1 Market Capitalisation as at 30 June 2016.

2 Financial data taken from each bank's respective financial statements as at 30 June 2016. Includes interests in subsidiaries and allied undertakings.

3 Number of branches (including brances of subsidiaries) was provided by each of the respective banks as at 30 June 2016.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the fourth quarter of 2013. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, increased use of interest rate floors, and lower loan-to-value ratios for commercial real estate loans.[5]

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (**REST**) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 (**CET1**) capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

The Monetary Board, in its media release dated 20 October 2014[6], decided to increase the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Universal Banks	4.95 billion**	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		

[5] http://www.philstar.com/business/2014/01/28/1283657/banks-tighten-real-estate-loan-norms

[6] http://www.bsp.gov.ph/publications/media.asp?id=3561

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All		
Cities up to 3rd Class Municipalities)		20 million
Head Office only		30 million
Up to 10 branches*		40 million
11 to 50 branches*		80 million
More than 50 branches*		
Head Office in All Other Areas Outside NCR (4th		
to 6th Class Municipalities)		10 million
Head Office only		15 million
Up to 10 branches*		20 million
11 to 50 branches*		40 million
More than 50 branches*		

* Inclusive of Head Office

** With no distinction for network size

On 29 October 2014, the BSP issued Circular No. 854 to effect the foregoing amendment to the minimum capital requirement. The amendment became effective in November 2014.

Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions shall be fully liberalized under l January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

As of 31 March 2016, the ten largest commercial banks account for approximately 71.9% of total assets and 73.1% of total deposits of the Philippine banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As of 31 March 2016, the ten largest commercial banks account for approximately 71.3% of the net customer loan portfolio of the commercial banking system, based on published statements of condition.

On 21 July 2015, Republic Act No. 10667, or the Philippine Competition Act, was signed into law. It took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the **Commission**), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the Commission must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On 3 June 2016 the Commission issued the implementing rules and regulations of the Philippine Competition Act (**IRR**). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion. Violations of the Philippine Competition Act and its IRR have severe consequences. Under the law and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Fines of between ₱50 million and ₱250 million may also be imposed by the courts on entities that enter into these defined anti-competitive agreements between competitors that are either prohibited per se or that have the object of substantially preventing, restricting or lessening competition by setting, limiting or controlling production, markets, technical development or investment or by dividing or sharing the market. Directors and management personnel of such entities, who knowingly and willfully participate in such criminal offenses, may also be sentenced to imprisonment for two to seven years. Treble damages may be imposed by the Commission or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

Certain Government Policies and Regulations in relation to the Philippine Banking System

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Certain policies that the Bank believes could affect its results of operations include the following:

- *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations. The Bank has already obtained its limited dealer authority for Foreign Exchange Forwards (including non-deliverables), Foreign Exchange Swaps, Interest Rate Swaps, Cross Currency Swaps, Asset Swaps, Forward Rate Agreements, European Vanilla Foreign Exchange Options and Credit Default Swaps. Meanwhile, there are currently no changes in the application process.

- *Amendments to unit investment trust fund (**UITF**) Regulations*. In September 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market, loans arising from repo agreements which are transacted through an exchange recognised by the SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. The Bank has joined with the BSP in this endeavour to guide clients in choosing investment outlets that are best suited to their objectives, risk tolerance, preferences and experience. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units/ shares in collective investment schemes as an allowable investment and recognising UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds.

- *Limit on Real Estate Loans of Universal Banks.* In February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. Overall, the new provisions reduced the Bank's limit on real estate loans.

- *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Programme, the BSP issued Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital. The Bank holds such investments which give it additional flexibility for capital deployment.

- *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on securities borrowing and lending (**SBL**) govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorised the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso denominated government securities and PSE-listed shares used as collateral.

- *Reclassification of Financial Assets between Categories*. The BSP issued Circular No. 628 dated 31 October 2008, amending Circular No. 626 dated 23 October 2008 and the Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from "held for trading" or "available for sale" categories to the "available for sale" or "held to maturity" or "unquoted debt securities classified as loans" categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.

- *Taxes*. In addition, all banks are subject to certain tax rules specific to Financial Institutions. In November 2005, the Government increased the gross receipts tax, which is applied to the Bank's non-interest income, from 5.0% to 7.0%. Any further changes in the regulatory or tax environment as pertaining to the Philippine banking industry could have a material impact on the Bank's results of operations and financial position.

- *Adjustment of Reserve Requirements of Peso Deposits Liabilities and Deposit Substitutes Taxes.* Under BSP Circular 732 (2011), as further amended by BSP Circular 753 (2012) , BSP Circular 830 (2014) and BSP Circular 832 (2014), universal and commercial banks are required to maintain regular reserves of: (a) 20% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 20% against negotiable order of withdrawal accounts; (c) 4% against deposit substitutes evidenced by repossession agreements; and (e) 4% against long-term negotiable certificates of time deposits under Circular No. 304 (2001), deposit substitutes evidenced by repossession agreement; (f) 6% against bonds; and (g) 7% against long-term negotiable certificates of time deposits under Circular No. 824 (2014).

- *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.* In July 2011, the BSP issued Circular No. 736 as a component of the Implementing Rules and Regulations (**IRR**) of the Republic Act No. 10000, otherwise known as the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided.

BANKING SUPERVISION AND REGULATION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Introduction

The General Banking Law provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 (the **New Central Bank Act**) which creates the BSP provides that the BSP shall have supervision over the operations of banks and exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked or such other factors as determined by the Monetary Board.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or a permit examination is criminally liable under Section 25 of the New Central Bank Act. In addition to the general laws such as the General Banking Law and the Anti-Money Laundering Act of 2001, Republic Act No. 9160, as amended, among others, banks must likewise comply with letter, circulars and memoranda issued by the BSP some of which are contained in the Manual.

The Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programme, and trust and other fiduciary functions of the relevant bank. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

All regulations pertaining to banks are then implemented by the Supervision and Examination Sector (**SES**) of the BSP. The SES is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779, and pawnshops under Presidential Decree No. 114).

Regulation relating to capital structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. All treasury shares must be sold within six months from the time of purchase or acquisition thereof.

In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches, ₱15 billion for head office with 11 to 100 branches, and ₱20 billion for head office with more than 100 branches. Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches, ₱10 billion for head office with 11 to 100 branches, and ₱15 billion for head office with more than 100 branches. Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches, ₱1 billion for head office with 11 to 100 branches, and ₱2 billion for head office with more than 100 branches. These minimum levels of capitalisation may be changed by the Monetary Board from time-to-time.

For purposes of these requirements, the Manual states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- Un booked valuation reserves and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- Deferred income tax;
- Appraisal increment reserve (revaluation reserve) as a result of appreciation or an increase in the book value of bank assets;
- Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower; and
- In the case of rural banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation programme.

On 15 July 2014, President Benigno S. Aquino III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721" (**RA 10641**). Under RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board was authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual, accordingly. On 15 February 2016, BSP issued

Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

The stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits then on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

- Its clearing account with BSP is overdrawn;
- It is deficient in the required liquidity floor for government deposits for five or more consecutive days;
- It does not comply withcapital buffer requirements;
- It does not comply with the higher loss absorbency (HLA) requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with D-SIB Framework; or
- It has committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP.

Regulations with respect to branches

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks).

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. This branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Under this Circular, Phase 1 of the liberalisation allows private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or “restricted areas” in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. Under Phase 2, branching in the “restricted” areas will be open to all banks except rural banks and cooperative banks. However, branches of microfinance-orientated banks, microfinance-orientated branches of regular banks branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (Republic Act No. 9178) may be established anywhere upon the fulfilment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

Regulations with respect to management of banks

The board of directors of a bank must have at least five and a maximum of 15 members, two of whom shall be independent directors. In case of merged or consolidated banks, the number of directors shall not exceed 21.

An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests.

Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officers of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

Regulations with respect to bank operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform i) activities allowed for commercial banks; ii) powers of an investment house; iii) to invest in non-allied enterprise.

Capital adequacy requirements and reserve requirements

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective 1 January 2011.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier 1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for Common Equity Tier 1 (**CET1**) capital and Tier 1 (**T1**) capital in addition to the Capital Adequacy Ratio (**CAR**). The BSP maintained the minimum CAR at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum T1 ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

BSP Circular No. 832, issued on 29 May 2014, requires a universal bank to maintain regular reserves of 20% against Philippine Peso demand, savings and time deposits, negotiable order of withdrawal accounts, deposit substitutes and certain managed funds.

On 29 October 2014, the Monetary board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel IIII. Banks deemed as D-SIBs by the BSP will be imposed capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment will start using December 2014 data with the BSP set to inform banks confidentially of their D-SIB status in mid-2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs (or Global Systemically Important Banks) given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance starts on 1 January 2017 before becoming fully effective on 1 January 2019.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III. The guidelines also provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period. Any adjustments made to the guidelines will be issued before the requirement becomes effective on 1 January 2017. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to increasing regulatory burden on banks. Further, local banks face new liquidity requirements, namely, the LCR and the NFSR, under Basel III. The LCR requires banks to hold sufficient level of HQLAs to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets. In March 2016, the Monetary Board the approval of the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements within 2016. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 12 February 2016, the Monetary board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' Internal Capital Adequacy Assessment Process (**ICAAP**) submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required Common Equity Tier 1 (**CET1**) capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan shall be submitted on 30 June 2016 and on every 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer (**CCB**) wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. The credit-to-GDP gap, defined as the difference between the credit-to-GDP ratio and its long-term trend, has been chosen as the guide or EWI (early warning indicator) for activating the CCB. However, some economists have raised the issue that the credit-to-GDP gap is not the best EWI for banking crises or system vulnerabilities, especially for emerging markets (including the Philippines). Under the BIS, the countercyclical capital buffer will be phased in beginning on 1 January 2016 and will become fully effective on 1 January 2019. The BSP, however, has yet to release the guidelines on the CCB.

In October 2014, the BSP issued new guidelines on sound credit risk management practices (BSP Circular No. 855). The Circular mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process. The Circular also mandates tigher provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, the Circular sets the collateral value (**CV**) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value (**LV**), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value (**LTV**) ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. Existing banks that will not immediately meet the new minimum capital requirement may avail of a five-year transition period to fully comply. Such banks will be required to submit a capital build-up program that is acceptable. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up program face curtailment of future expansion plans. For Universal Banks, the minimum capitalisation was changed from the previous ₱4.95 billion, which was applicable to all, to ₱3.0 billion for banks with Head Office only, ₱6.0 billion for banks with up to 10 branches, ₱15.0 billion for banks with 11 to 100 branches and ₱20.0 billion for banks with more than 100 branches. As of 30 June 2016, the Bank had sufficient capital to meet the new minimum capital requirements.

As at 31 December 2013, 2014, 2015 and 30 June 2016, the Bank had a capital adequacy ratio of 15.5%, 14.4%, 13.3% and 13.1%, respectively. Also, the Bank's Tier 1 ratios were 14.3%, 12.6%, 11.7% and 11.6% for the respective periods. Meanwhile, the Bank's CET1 ratio under Basel III (which became effective 1 January 2014) was 11.4% as of end-December 2015 and 11.3% as of end-June 2016. All three ratios were well above regulatory standards.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures (**REEs**) to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further on 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo Real Estate Stress Test (**REST**) while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks (**UKBs**) as well as thrift banks (**TBs**) must meet a capital adequacy ratio (**CAR**) of 10% of qualifying capital after adjusting for the stress test results. Further, UKBs and their thrift bank subsidiaries are required to maintain a level of Common Equity Tier 1 (**CET 1**) that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

Limitations on operations

The Single Borrower's Limit

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20.0% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). The total amount of loans, credit accommodations and guarantees may also be increased by an additional 25.0% for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Programme of the Philippine government duly certified by the Secretary of Socio-Economic Planning. This shall be allowed for a period of six years from 28 December 2010.

The limitations shall not apply to secured obligations of the BSP or the Republic of the Philippines, those covered by assignment of deposits maintained in the lending bank and held in the Philippines, those under letters of credit to the extent covered by margin deposits and those which the Monetary Board may from time to time prescribe as non-risk items.

Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, indorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the Board of Directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase.

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus appraised value of the insured improvements, except for the following which shall be allowed a maximum value of 70% of the appraised value (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (ii) housing loans extended by or guaranteed under the Government's "National Shelter Programme", such as the Expanded Housing Loans Programme of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance programme of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loan may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (**PDP/PIP**) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Banking Regulation and Supervision

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvement including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed of the bank within a period of five years or as may be prescribed by the Monetary Board.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- Receive in custody funds, documents and valuable objects;
- act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;
- upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- rent out safety deposit boxes.

Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 which expanded the Anti-Money Laundering Act covered institutions and crimes. This law took effect on 7 March 2013.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one banking day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client's profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

(a) transacts said monetary instrument or property;

(b) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;

(c) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;

(d) attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);

(e) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above; and

(f) performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b) or (c) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the Anti-Money Laundering Council, fails to do so.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%

Taxable net income refers to items of income specified under Section 32 (A) of Republic Act No. 8424, otherwise known as the Tax Reform Act of 1997, as amended (the **Tax Code**) less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A Minimum Corporate Income Tax (**MCIT**) equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular corporate income tax. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

An Improperly Accumulated Earning Tax (**IAET**) equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulation No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;

- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulation 05-99 (as amended by Revenue Regulation 25-02), in order for banks to claim bad debts as tax deductions, they must secure a certification from the BSP that the accounts are worthless and can be written off, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries.

ROPA of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax (DST) except if they have a maturity of more than seven days.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines or the United Kingdom and each country of which they are residents.

Philippines Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the present provisions of the National Internal Revenue Code of 1997 (the **Tax Code**), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective Noteholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Notes.

As used herein, the term "*resident alien*" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "*non-resident alien*" is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "*non-resident alien doing business in the Philippines*," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "*non resident alien not doing business in the Philippines.*" A "*resident foreign corporation*" is a foreign corporation engaged in trade or business in the Philippines; and a "*non-resident foreign corporation*" is a foreign corporation not engaged in trade or business in the Philippines.

Documentary Stamp Taxes

Under Republic Act No. 9243, which amended certain provisions of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.00 on each ₱200, or fractional part thereof, of the face value of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. The issuance of the Notes, whether to residents or non-residents, will be subject to Philippine documentary stamp tax, which shall be for the account of the Bank.

No documentary stamp tax is imposed on a subsequent sale or disposition of the Notes.

Interest on the Notes

Under the Tax Code, any income of non-residents, whether individuals or corporations, and of depositary banks under the expanded foreign currency deposit system, from foreign currency transactions with depository banks under the expanded foreign currency deposit system is exempt from income tax. Accordingly, if the Notes are issued or booked by the Bank's foreign currency deposit unit, the principal, interest income and other amounts payable on the Notes received by non-resident aliens, whether or not engaged in trade or business within the

Philippines, non-resident foreign corporations and depositary banks under the expanded foreign currency deposit system, is not subject to withholding tax in the Philippines.

Sale or other Disposition of the Notes

Any gain, profit or income from sale or disposition of personal property will generally be considered as Philippine-sourced income only if sold within the Philippines. If the Noteholder is a nonresident foreign corporation, and presumably the situs of any transfer involving the Notes will be facilitated in and take place outside the Philippines, any gain, profit or income from any sale or disposition of the Notes outside the Philippines will generally not be considered as Philippine-sourced income insofar as the Philippine-sourced Taxpayers are concerned and thus the receipt by said taxpayers of any gain from sale of the Notes will not be subject to Philippine tax.

On the other hand, since resident citizens and domestic corporation are subject to Philippine tax on their income whether these are Philippine-sourced income or not, their realisation of any gain, profit or income from sale or disposition of the Notes will generally be subject to Philippine tax. A holder of the Notes will recognise a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Notes in an amount equal to the difference between the amount realised from such disposition and such holder's basis in the Notes.

Under Section 32(B)(7)(g) of the Tax Code, gains realised from the sale, exchange or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificates of indebtedness (**Long-Term Bonds**) are exempt from income tax. If the Notes will be construed by the Philippine tax authority as Long-Term Bonds, gains realised by resident citizens and domestic corporations from the sale or transfer of the Notes will be exempt from Philippine tax.

If the Notes are not Long Term Bonds, or will not be construed by the Philippine tax authority as Long-Term Bonds, any gain realised by resident citizens and domestic corporation from the sale or transfer of the Notes will form part of their taxable income subject to ordinary income tax rates under the Tax Code at graduated rates from 5%-32% for resident citizens and 30% for domestic corporations (or 2% MCIT, as the case may be). Additionally, in the case where the seller of the Notes (i) is a resident citizen, (ii) is not a dealer in securities, and (iii) has held the Notes for a period of more than 12 months prior to the sale, only 50.0% of any capital gain will be recognised and included in said seller's gross taxable income for Philippine tax purposes.

Estate and Gift Taxes

The Notes will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Notes upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000; otherwise, such transfer will not be subject to tax.

Individual and corporate registered holders, whether or not citizens or residents of the Philippines, who transfer the Notes by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the net gifts made during the year exceed ₱100,000. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%

Estate and gift taxes will not be collected in respect of intangible personal property such as the Notes (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

Hong Kong Taxation

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of the Laws of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Bearer Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Bearer Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. Similarly, such sums in respect of Registered Notes received by or accrued to either the aforementioned person and/or a financial institution will be subject to Hong Kong profits tax if such sums have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable it is payable by the Issuer on issue of Bearer Notes at a rate of 3.0% of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.20% (of which 0.10% is payable by the seller and 0.10% is payable by the purchaser) normally by reference to the value of the consideration. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced operation on 11 February 2006. Estates of persons who pass away on or after the commencement date of that ordinance are not subject to Hong Kong estate duty.

European Union Taxation

EU Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transactions tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, on 16 March 2016, Estonia completed the formalities required to cease participation in the enhanced cooperation on FTT.

Under the 14 February 2013 proposal, the FTT would be a tax primarily on “financial institutions” in relation to “financial transactions” (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments). Under the current proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT could, if introduced in the form proposed on 14 February 2013, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. However, primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt and therefore the issuance and subscription of Notes should be exempt.

The FTT proposal remains subject to negotiation between the ten remaining participating Member States and may therefore be altered prior to any implementation, the timing of which remains unclear, with the scheduled date of introduction of the FTT having been postponed on several occasions. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

PRC CURRENCY CONTROLS

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under the PRC foreign exchange control regulations, current account item refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers into and outside the PRC

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Since July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, 24 August 2011 and 3 February 2012 respectively, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades and the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement, Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods, Circulars with regard to the expansion of designated cities and offshore jurisdictions implementing the pilot Renminbi settlement scheme for cross-border trades (together as **Circulars**). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted, and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that the relevant provincial government has submitted to The People's Bank of China (**PBOC**) and five other PRC authorities (the **Six Authorities**) a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the **Supervision List**).

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (the **2013 PBOC Circular**), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

As new regulations, the Circulars and the 2013 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circulars and the 2013 PBOC Circular and impose conditions for settlement of current account items. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the use of Renminbi for payment of transactions categorised as current account items, then such settlement will need to be made subject to the specific requirements or restrictions set out in such regulations.

Capital Account Items

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlements for capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties were also generally required to make capital account payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 10 May 2013, the State Administration of Foreign Exchange of the PRC (**SAFE**) promulgated the "Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors" (the **SAFE Provisions**), which became effective on 13 May 2013. According to the SAFE Provisions, foreign investors can use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise by a PRC resident within the total investment amount approved by the competent authorities (for example, Ministry of Commerce People's Republic of China (**MOFCOM**) and/or its local counterparts as well as financial regulators).

Capital account transactions in Renminbi must generally follow the current foreign exchange control regime applicable to foreign currencies.

Under current rules promulgated by SAFE, foreign debts borrowed and the foreign security provided by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign security regime. Furthermore, according to the 2013 PBOC Circular, upon enforcement of foreign security in Renminbi provided by onshore non-financial enterprises, PRC banks may provide Renminbi settlement services (i.e. remittance of enforcement proceeds) directly, which seems to indicate that SAFE approval for enforcement (which would be required in the case of the external guarantees in foreign currencies) is no longer required. However, SAFE has not amended its positions under the current applicable rules, nor has it issued any regulations to confirm the positions in the 2013 PBOC Circular. Therefore, there remain potential inconsistencies between the provisions of the SAFE rules and the provisions of the 2013 PBOC Circular and it is unclear how SAFE will deal with such inconsistencies in practice.

The SAFE Provisions, the MOFCOM Circular and the PBOC FDI Measures, which are new regulations, have been promulgated to control the remittance of Renminbi for payment of transactions categorised as capital account items and such new regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 7 December 2012, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as may be agreed between them in respect of Notes subscribed by it. The Issuer has agreed, unless otherwise agreed in respect of an issue of Notes, to pay all expenses incidental to the performance of their respective obligations under the Dealer Agreement. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the applicable Pricing Supplement. The Notes may also be sold by the Issuer through the Dealers, acting as the Issuer's agents. The Dealers may also offer and sell Notes through certain of their affiliates. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price set forth in the applicable Pricing Supplement (less commissions, if any, in connection with such issue of Notes), the Notes may be reoffered and resold by the relevant Dealer(s) at a price different from their Issue Price, including (without limitation) at prevailing market prices, or at prices related thereto, at the time of such reoffer and resale, in each case as may be determined by the relevant Dealer(s).

In order to facilitate the offering of any Tranche of the Notes, the Dealer or Dealers (if any) named as Stabilising Managers for persons acting on behalf of any Stabilising Manager(s) in the applicable Pricing Supplement and participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect, which support the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. There is no assurance that the Stabilising Manager(s) or persons acting on behalf of a Stabilising Manager will undertake stabilisation action. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Under the laws and regulations of the United Kingdom any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant tranche of Notes and 60 days after the date of the allotment of the relevant tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including any Tranche of Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Each Tranche of Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Tranche of Notes issued under the Programme, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

United States

(a) In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act.

(b) In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement and the Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Subject to paragraph 1.5 below, each Dealer has represented and agreed that it has offered, sold and delivered any Notes, and will offer, sell and deliver any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who has purchased Notes of a Tranche hereunder (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant Lead Arranger) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Notes of such Tranche. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer / Lead Arranger of the end of the distribution compliance period with respect to such Tranche. Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Arranger, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S".

Terms used in this paragraph 1.2 have the meanings given to them by Regulation S.

(c) Each Dealer has further represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and, in respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, it and they have complied and will comply with the offering restrictions requirement of Regulation S.

The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (**TEFRA D**), or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**). In respect of Bearer Notes where TEFRA D is specified in the applicable Pricing Supplement:

(i) except to the extent permitted under TEFRA D, each Dealer (i) has represented and agreed that it has not offered or sold, and has agreed that during a 40-day restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) has represented that it has not delivered and agreed that it will not deliver within the United States or its possessions definitive Notes in bearer form;

(ii) each Dealer has represented and agreed that it has and agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(iii) if it is a United States person, each Dealer has represented and agreed that it is acquiring Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it will only do so in accordance with TEFRA D (including the requirements of U.S. Treas. Reg. Section l.163-5(c)(2)(i)(D)(6));

(iv) it will provide the Issuer with the documentation specified (at the time specified) in U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(3); and

(v) with respect to each affiliate of such Dealer that acquires Notes in bearer form from such Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer has repeated and confirmed the representations and agreements contained in subparagraphs (i), (ii), (iii) and (iv) on such affiliate’s behalf.

Terms used in this paragraph 1.3 have the meanings given to them by the Code and Treasury regulations promulgated thereunder.

(d) The applicable Pricing Supplement will specify whether U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(C) (**TEFRA C**), or any successor rules that are substantially in the same form, in each case, are applicable (or relevant under IRS Notice 2012-20) for purposes of Section 4701 of the Code. In respect of Bearer Notes where TEFRA C is specified in the applicable Pricing Supplement, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes.

Terms used in this paragraph 1.4 have the meanings given to them by the Code and Treasury regulations promulgated thereunder.

(e) Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement. The relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the pricing supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member (a **Non-exempt Offer**) State, following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

the expression **an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;

the expression **Prospectus Directive** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (and amendments thereto, including those set out in Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA and section 89 and 90 of the Financial Services Act with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that any Notes will only be offered in The Netherlands to Qualified Investors (as defined in the EU Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

In addition to the above, if the Issuer issues Zero Coupon Notes and these Zero Coupon Notes are offered in the Netherlands as part of their initial distribution or immediately thereafter:

(i) transfer and acceptance of such Zero Coupon Notes may only take place either by and between individuals not acting in the course of their profession or business or through the mediation of either a permit holder (Toegelaten Instelling) of Euronext Amsterdam N.V. or the Issuer itself in accordance with the Savings Certificate Act of 21 May 1985 (Wet inzake Spaarbewijzen); and

(ii) certain identification requirements in relation to the issue and transfer of, and payment on the Zero Coupon Notes have to be complied with pursuant to section 3a of the Savings Certificate Act;

Furthermore, unless such Zero Coupon Notes qualify as commercial paper or certificates of deposit and the transaction is carried out between professional lenders and borrowers:

(iii) each transaction concerning such Zero Coupon Notes must be recorded in a transaction note, stating the name and address of the other party to the transaction, the nature of the transaction and details, including the number and serial number of the Zero Coupon Notes concerned;

(iv) the obligations referred to under (c) above must be indicated on a legend printed on Zero Coupon Notes that are not listed on a stock market; and

(v) any reference to the words "to bearer" in any documents or advertisements in which a forthcoming offering of Zero Coupon Notes is publicly announced is prohibited.

For purposes of this paragraph, Zero Coupon Notes are Notes to bearer in definitive form that constitute a claim for a fixed sum of money against the Issuer and on which interest does not become due prior to maturity or on which no interest is due whatsoever.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further

Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to the exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (however so described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each of Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**), by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the

Securities and Futures Ordinance) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made under that Ordinance.

Philippines

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE **SRC**). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.

Any offer or sale of the Notes within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Notes qualify as exempt securities or pursuant to an exempt transaction under the SRC. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the Bangko Sentral ng Pilipinas and the Philippine Securities and Exchange Commission.

PRC

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any of the Notes in the People's Republic of China (for such purposes, not including Hong Kong, Macau SAR or Taiwan) or to residents of the People's Republic of China unless such offer or sale is made in compliance with all applicable laws and regulations of the People's Republic of China.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and any applicable pricing supplement and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefore.

None of the Issuer, the Trustee, and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable pricing supplement.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 28 July 2012.

Listing

2. Application has been made to the SGX-ST for permission to deal in, and quotation of, any Notes to be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List.

   Admission to the Official List and any quotation of any Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, for so long as such Notes are listed on the SGX-ST, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Delisting of Notes

3. The Trust Deed provides that if the applicable Pricing Supplement indicates that the Notes are listed on a stock exchange (the **relevant Stock Exchange**), the Bank will use its best endeavours to maintain the listing on the relevant Stock Exchange of those of the Notes which are listed on the relevant Stock Exchange or, if it is unable to do so having used its best endeavours or if the Trustee considers that the maintenance of such listings is unduly onerous whether as a result of the implementation of the EU Transparency Directive (directive 2004/109/EC of the European Parliament and of the Council on the Harmonisation of Transparency Requirements in relation to information about issuers whose securities are admitted to trading on a regulated market) or otherwise, it may cease to maintain such listing provided that it shall use its best endeavours promptly to obtain and maintain a quotation or listing of such Notes on such other stock exchange or exchanges or securities market or markets on which it is then accepted in the sphere of international issues of debt securities to list securities such as the Notes as it may (with the approval of the Trustee (which approval of the Trustee may only be given if the Trustee has received confirmation from the relevant Dealer(s) in respect of such Notes that such other stock exchange or exchanges or securities market or markets is so accepted)) decide and shall also upon obtaining a quotation or listing of such Notes issued by it on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to this Trust Deed to effect such consequential amendments to these presents as the Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market.

Clearing systems

4. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

5. Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position or prospects of the Bank and/or the Group since 31 December 2015.

Litigation

6. The Bank and/or the Group is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Bank and/or the Group.

Accounts

7. The auditors of the Issuer for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 were Punongbayan & Araullo (**P&A**), independent auditors.

   Such auditors have issued, in accordance with Philippine Standards on Auditing, an unqualified audit report for the financial years ended 31 December 2014 and 2015 and an unqualified limited review report for the six months ended 30 June 2016.

Trustee's Reliance on Certificates

8. The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) or any other person in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors or such other person in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person. However, the Trustee will have no recourse to the Auditors or such other person in respect of such certificates or reports unless the Auditors or such other person have agreed to address such certificates or reports to the Trustee.

Documents Available

9. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the corporate office of the Issuer and from the specified office of the Paying Agent in London:

   (a) the audited financial statements of the Bank in respect of the financial years ended 31 December 2014 and 2015;

   (b) the unaudited interim financial results of the Bank in respect of the six months ended 30 June 2016;

   (c) the most recently published audited unconsolidated and (if produced) consolidated financial statements of the Bank and the most recently published unaudited consolidated and (if produced) consolidated interim financial results of the Bank (the Bank currently prepares unaudited consolidated interim results on a quarterly basis under Philippine regulatory requirements);

   (d) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

   (e) a copy of this Offering Circular;

   (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

   (g) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

INDEX TO THE FINANCIAL STATEMENTS

ISSUER

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Makati City 0726
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Hong Kong Branch

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United Kingdom

PRINCIPAL PAYING AGENT

The Bank of New York Mellon,
London Branch
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REGISTRAR

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To the Lead Arranger and the Dealers as to Philippine law

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To the Lead Arranger and the Dealers as to English law

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AUDITORS OF THE ISSUER

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The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

LEAD ARRANGER

Standard Chartered Bank
Marina Bay Financial Centre, Tower 1,
8 Marina Boulevard, Level 20
Singapore 018981

DEALERS

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Citigroup Global Markets Limited
Citigroup Centre Canada Square
Canary Wharf London E14 5LB
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2 Queen's Road Central
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The Hongkong and Shanghai Banking Corporation Limited
Level 17 HSBC Main Building
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Singapore 018981

UBS AG, Hong Kong Branch
52/F Two International Finance Centre
8 Finance Street,
Hong Kong

US$2,000,000,000

BDO Unibank, Inc.

Medium Term Note Programme

O F F E R I N G   C I R C U L A R

14 October 2016

Standard Chartered Bank

#4840-6909-6250v8

Report on Review of Interim Consolidated Financial Information

Punongbayan & Araullo
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The Enterprise Center
6766 Ayala Avenue
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The Board of Directors and the Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

Introduction

We have reviewed the accompanying consolidated statement of financial position of BDO Unibank, Inc. and subsidiaries as of June 30, 2016, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended June 30, 2016 and 2015, and a summary of selected accounting policies and other explanatory information.

Management's Responsibility for the Interim Consolidated Financial Information

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

Auditors' Responsibility

Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Certified Public Accountants
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-FR-4

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the consolidated financial position of BDO Unibank, Inc. and subsidiaries as of June 30, 2016, and their consolidated financial performance and their cash flows for the six months ended June 30, 2016 and 2015 in accordance Philippine Financial Reporting Standards.

Other Matter

We have previously audited the consolidated financial statements of BDO Unibank, Inc. and subsidiaries as of December 31, 2015, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered our report thereon dated February 27, 2016.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

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

September 3, 2016

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2015)
(Amounts in Millions of Philippine Pesos)

	Notes		June 30, 2016		December 31, 2015
R E S O U R C E S					
CASH AND OTHER CASH ITEMS	5	**P**	**30,902**	P	42,729
DUE FROM BANGKO SENTRAL NG PILIPINAS	5		**318,003**		271,808
DUE FROM OTHER BANKS	6		**40,659**		24,837
TRADING AND INVESTMENT SECURITIES - Net	7		**267,300**		225,759
LOANS AND OTHER RECEIVABLES - Net	8		**1,417,546**		1,382,752
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9		**25,825**		24,995
INVESTMENT PROPERTIES - Net	10		**15,029**		14,633
OTHER RESOURCES - Net	11		**40,345**		43,741
TOTAL RESOURCES		**P**	**2,155,609**	P	2,031,254
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	13	**P**	**1,771,643**	P	1,663,853
BILLS PAYABLE	14		**82,398**		97,543
SUBORDINATED NOTES PAYABLE	15		**10,030**		10,030
INSURANCE CONTRACT LIABILITIES	16		**17,910**		-
OTHER LIABILITIES	17		**62,492**		60,215
Total Liabilities			**1,944,473**		1,831,641
EQUITY	18				
Attributable to:					
Shareholders of the Parent Bank			**210,437**		198,990
Non-controlling interest			**699**		623
Total Equity			**211,136**		199,613
TOTAL LIABILITIES AND EQUITY		**P**	**2,155,609**	P	2,031,254

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes	2016	2015
INTEREST INCOME ON			
Loans and other receivables	8	**P 35,569**	P 30,042
Trading and investment securities	7	**4,026**	3,723
Due from Bangko Sentral ng Pilipinas and other banks	5, 6	**339**	499
Others		**12**	6
		39,946	34,270
INTEREST EXPENSE ON			
Deposit liabilities	13	**6,742**	5,863
Bills payable and other liabilities	14, 15, 17	**1,468**	1,336
		8,210	7,199
NET INTEREST INCOME		**31,736**	27,071
IMPAIRMENT LOSSES		**1,742**	2,133
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**29,994**	24,938
OTHER OPERATING INCOME	19	**22,106**	16,421
OTHER OPERATING EXPENSES	19	**34,952**	26,702
PROFIT BEFORE PRE-ACQUISITION INCOME		**17,148**	14,657
PRE-ACQUISITION INCOME	24	(489)	-
PROFIT BEFORE TAX		**16,659**	14,657
TAX EXPENSE	25	**3,411**	2,916
NET PROFIT		**P 13,248**	P 11,741
Attributable To:			
Shareholders of the Parent Bank		**P 13,231**	P 11,723
Non-controlling interest		**17**	18
		P 13,248	P 11,741
Earnings Per Share	26		
Basic		**P 3.54**	P 3.18
Diluted		**P 3.54**	P 3.18

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	2016	2015
NET PROFIT	**P 13,248**	P 11,741
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified subsequently to profit or loss:		
Net unrealized fair value gains (losses) on available-for-sale securities, net of tax	**451**	(1,742)
Translation adjustment related to foreign operations	**108**	(22)
	559	(1,764)
Items that will not be reclassified to profit or loss:		
Actuarial gains (losses) on remeasurement of retirement benefit asset, net of tax	**1**	(4)
Reversal of revaluation increment, net of tax	**-**	(19)
	1	(23)
	560	(1,787)
TOTAL COMPREHENSIVE INCOME	**P 13,808**	P 9,954
Attributable To:		
Shareholders of the Parent Bank	**P 13,796**	P 9,915
Non-controlling interest	**12**	39
	P 13,808	P 9,954

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Accumulated Translation Adjustment	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interest	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 715)	(P 3,608)	P 1,008	(P 60)	P 198,990	P 623	P 199,613
Transaction with owners:	18													
Issuance of shares during the year		19	-	75	-	-	-	-	-	-	-	94	-	94
Cash dividends		-	-	-	-	-	(2,527)	-	-	-	-	(2,527)	(50)	(2,577)
		19	-	75	-	-	(2,527)	-	-	-	-	(2,433)	(50)	(2,483)
Total comprehensive income		-	-	-	-	-	13,231	447	1	-	117	13,796	12	13,808
Transfer to (from) Surplus Free:	18													
Appropriations during the year		-	-	-	14	-	(14)	-	-	-	-	-	-	-
Trust reserve		-	-	-	59	-	(59)	-	-	-	-	-	-	-
		-	-	-	73	-	(73)	-	-	-	-	-	-	-
Other adjustments:	24													
Change in ownership interest in subsidiaries		-	-	-	-	-	-	-	-	-	-	-	114	114
Consolidation of a new subsidiary		-	-	-	-	-	-	88	(4)	-	-	84	-	84
		-	-	-	-	-	-	88	(4)	-	-	84	114	198
BALANCE AT JUNE 30, 2016		**P 36,472**	**P 5,150**	**P 70,011**	**P 2,769**	**P 12**	**P 98,749**	**(P 180)**	**(P 3,611)**	**P 1,008**	**P 57**	**P 210,437**	**P 699**	**P 211,136**
BALANCE AT JANUARY 1, 2015		P 35,808	P 5,150	P 63,908	P 3,454	P 12	P 70,242	P 2,965	(P 3,454)	P 1,027	(P 76)	P 179,036	P 633	P 179,669
Transaction with owners:	18													
Redemption of preferred stocks		-	-	-	-	-	-	-	-	-	-	-	(27)	(27)
Cash dividends		-	-	-	-	-	(7,859)	-	-	-	-	(7,859)	(43)	(7,902)
		-	-	-	-	-	(7,859)	-	-	-	-	(7,859)	(70)	(7,929)
Total comprehensive income (loss)		-	-	-	-	-	11,723	(1,756)	(4)	(19)	(29)	9,915	39	9,954
Transfer to (from) Surplus Free:	18													
Appropriation during the period		-	-	-	913	-	(913)	-	-	-	-	-	-	-
Trust reserve		-	-	-	44	-	(44)	-	-	-	-	-	-	-
		-	-	-	957	-	(957)	-	-	-	-	-	-	-
BALANCE AT JUNE 30, 2015		P 35,808	P 5,150	P 63,908	P 4,411	P 12	P 73,149	P 1,209	(P 3,458)	P 1,008	(P 105)	P 181,092	P 602	P 181,694

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 16,659	P 14,657
Adjustments for:			
Interest income		(39,946)	(34,270)
Interest received		39,829	34,701
Interest paid		(8,303)	(7,427)
Interest expense		8,210	7,199
Depreciation and amortization	9, 10, 11	2,289	1,845
Gain on acquisition of a subsidiary	24	(2,141)	-
Impairment losses		1,742	2,133
Share in net profit of associates	11	(257)	(383)
Fair value loss on financial assets at fair value through profit or loss (FVTPL)		92	288
Operating profit before changes in operating resources and liabilities		18,174	18,743
Increase in financial assets at FVTPL		(124)	(2,186)
Increase in loans and other receivables		(84,879)	(18,282)
Decrease (increase) in investment properties		(582)	1,048
Increase in other resources		(1,657)	(1,493)
Increase in deposit liabilities		107,790	28,193
Increase (decrease) in other liabilities		1,914	(21,674)
Cash generated from operations		40,636	4,349
Cash paid for income taxes		(3,427)	(1,874)
Net Cash From Operating Activities		37,209	2,475
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of available-for-sale (AFS) securities		57,081	238,891
Acquisitions of AFS securities		(45,685)	(257,121)
Acquisitions of held-to-maturity (HTM) investments		(38,962)	-
Maturities of HTM investments		12,407	-
Acquisitions of premises, furniture, fixtures and equipment		(2,463)	(2,572)
Payment for acquisition of a new subsidiary, net of cash acquired		(1,392)	-
Disposals of premises, furniture, fixtures and equipment	9	25	117
Net Cash Used in Investing Activities		(18,989)	(20,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net payments of bills payable		(15,145)	(1,904)
Dividends paid	18	(2,577)	(2,531)
Proceeds from issuance of common stock	18	94	-
Net Cash Used in Financing Activities		(17,628)	(4,435)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(carried forward)***		P 592	(P 22,645)

	2016	2015
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(brought forward)***	**P 592**	(P 22,645)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**42,729**	41,342
Due from Bangko Sentral ng Pilipinas	**271,808**	269,542
Due from other banks	**24,837**	45,621
Securities purchased under reverse repurchase agreement	**69,490**	86,173
Foreign currency notes and coins	**3,244**	3,406
	412,108	446,084
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**30,902**	29,449
Due from Bangko Sentral ng Pilipinas	**318,003**	257,996
Due from other banks	**40,659**	32,375
Securities purchased under reverse repurchase agreement	**20,434**	101,110
Foreign currency notes and coins	**2,702**	2,509
	P 412,700	P 423,439

Supplemental Information on Non-cash Investing Activities:

(1) In 2016, after the end of the two-year tainting period, BDO Unibank Group reclassified AFS securities with a carrying value of P107,669 to HTM investments (see Note 7).

(2) On June 30, 2016, the Parent Bank acquired the remaining 60% of the issued and outstanding capital stock of Generali Pilipinas Holdings Company, Inc. subsequently renamed as BDO Life Assurance Holdings Corp. from the Generali Group for a cash consideration amounting to P2,100, making the latter a wholly-owned subsidiary of the former. The transaction resulted in the recognition of gain on acquisition of a subsidiary amounting to P2,141 (see Note 24).

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 consolidated statement of financial position.

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION
JUNE 30, 2016 AND 2015
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2015)
(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 or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stockbrokerage, trust and others.

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of June 30, 2016, BDO Unibank Group had 1,053 branches (including one foreign branch), 1,790 on-site and 1,581 off-site automated teller machines (ATMs) and 245 cash accept machines (CAMs). As of June 30, 2016, the Parent Bank had 944 branches (including one foreign branch), 1,661 on-site and 1,527 off-site ATMs and 245 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. These foreign operations accounted for 0.99% and 1.11% of BDO Unibank Group's total revenues for the six months ended June 30, 2016 and 2015, respectively, and 1.20% of BDO Unibank Group's total resources both as of June 30, 2016 and December 31, 2015.

1.2 Subsidiaries and Associates

The BDO Unibank Group holds interests in the following subsidiaries:

	Percentage of Ownership	
Subsidiaries	**June 30, 2016**	December 31, 2015
Thrift Bank		
BDO Elite Savings Bank, Inc. (BDO Elite)	**99.64%**	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc.)	**99.99%**	99.99%
Rural Bank		
One Network Bank, Inc. (A Rural Bank) (ONB)	**99.75%**	99.63%
Investment House		
BDO Capital & Investment Corporation (BDO Capital)	**100%**	100%
Private Banking		
BDO Private Bank, Inc. (BDO Private)	**100%**	100%
Leasing and Finance		
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%
Averon Holdings Corporation (Averon)	**100%**	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%
Securities Companies		
BDO Securities Corporation (BDO Securities)	**100%**	100%
BDO Nomura Securities, Inc. (BDO Nomura) [previously PCIB Securities, Inc. (PCIB Securities)]	**51%**	100%
Armstrong Securities, Inc. (ASI)	**80.00%**	80.00%
Real Estate Companies		
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%
Equimark-NFC Development Corporation (Equimark)	**60.00%**	60.00%
Insurance and Insurance Brokerage Companies		
BDO Life Assurance Holdings Corp. (BDO Life) [previously Generali Pilipinas Holding Company, Inc. (GPHCI)]	**100%**	40%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%
Remittance Companies		
BDO Remit (USA), Inc.	**100%**	100%
Express Padala (Hongkong), Ltd.	**100%**	100%
PCIB Europe S.p.A.	**100%**	100%
Express Padala Frankfurt GmbH (EPHG)	**-**	100%
BDO Remit (Italia) S.p.A	**100%**	100%
BDO Remit (Japan) Ltd.	**100%**	100%
BDO Remit (Canada) Ltd.	**100%**	100%
BDO Remit Limited	**100%**	100%
BDO Remit (Macau) Ltd.	**100%**	100%
CBN Grupo International Holdings B.V. (CBN Grupo)	**60.00%**	60.00%
Others		
PCI Realty Corporation	**100%**	100%

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

On March 21, 2016, EPHG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings was completed.

In 2015, BDO Capital initiated the consolidation of BDO Elite and BDO Savings under a three way merger transaction (see Note 28.1).

1.3 Approval of Interim Consolidated Financial Information

The interim consolidated financial information (unaudited) of BDO Unibank Group as of and for the six months ended June 30, 2016 (including the comparative financial information as of December 31, 2015 and for the six months ended June 30, 2015) were authorized for issue by the Parent Bank's President on September 3, 2016.

2. BASIS OF PREPARATION OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

This interim consolidated financial information has been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This interim consolidated financial information does not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the consolidated financial statements of BDO Unibank Group as of and for the year ended December 31, 2015. The interim consolidated financial information of BDO Unibank Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board.

The preparation of interim consolidated financial information in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of resources and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

In preparing the interim consolidated financial information, the significant judgments made by the management in applying the BDO Unibank Group's accounting policies and the key sources of estimation uncertainty are the same as those applied in the BDO Unibank Group's annual consolidated financial statements for the year ended December 31, 2015.

This interim consolidated financial information is presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in this interim consolidated financial information are consistent with those applied in BDO Unibank Group's annual consolidated financial information as of and for the year ended December 31, 2015.

The policies have been consistently applied to all periods presented, unless otherwise stated.

4. 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 the 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, *Operating Segments*, 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 bases on which BDO Unibank Group reports its segment information. Transactions between the segments are made on normal commercial terms and conditions. Inter-segment transactions are eliminated in full 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.

During the six months ended June 30, 2016, there have been no significant changes from prior periods in the measurement methods used by the BDO Unibank Group in determining operating segments and reported segment profit or loss.

In the 2015 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.

Primary segment information (by business segment) for the six months ended June 30, 2016 (including the comparative financial information as of December 31, 2015 and for the six months ended June 30, 2015) follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
June 30, 2016 (Unaudited)								
Statement of Income								
Total interest income								
External	P 37,966	P 35	P 718	P 860	P 343	P 24	P -	P 39,946
Intersegment	68	2	-	-	3	1	(74)	-
	38,034	37	718	860	346	25	(74)	39,946
Total interest expense								
External	7,659	-	209	304	38	-	-	8,210
Intersegment	6	28	-	23	-	18	(75)	-
	7,665	28	209	327	38	18	(75)	8,210
Net interest income	30,369	9	509	533	308	7	1	31,736
Other operating income								
Investment banking fees	-	632	-	-	-	-	-	632
Others	13,094	143	685	547	5,699	543	763	21,474
	13,094	775	685	547	5,699	543	763	22,106
Other operating expenses								
Depreciation and amortization	1,847	28	11	359	34	10	-	2,289
Impairment losses	1,611	-	-	30	101	-	-	1,742
Others	27,033	340	626	308	4,346	100	(90)	32,663
	30,491	368	637	697	4,481	110	(90)	36,694
Profit before pre-acquisition	12,972	416	557	383	1,526	440	854	17,148
Pre-acquisition income	-	-	-	-	-	-	(489)	(489)
Profit before tax	12,972	416	557	383	1,526	440	365	16,659
Tax expense	2,886	106	128	101	185	5	-	3,411
Net profit	**P 10,886**	**P 310**	**P 429**	**P 282**	**P 1,341**	**P 435**	**P 365**	**P 13,248**
Statement of Financial Position								
Total resources								
Segment assets	P 2,042,551	P 6,304	P 51,302	P 35,896	P 29,801	P 9,266	(P 33,321)	P 2,141,799
Intangible assets	4,678	102	25	45	49	1	2,906	7,806
Deferred tax assets	6,165	(199)	52	(1)	16	(29)	-	6,004
	P 2,053,394	**P 6,207**	**P 51,379**	**P 35,940**	**P 29,866**	**P 9,238**	**(P 30,415)**	**P 2,155,609**
Total liabilities	**P 1,851,096**	**P 4,175**	**P 45,131**	**P 30,831**	**P 21,926**	**P 1,876**	**(P 10,562)**	**P 1,944,473**
Other segment information								
Capital expenditures	**P 2,741**	**P 15**	**P 7**	**P 325**	**P 84**	**P 269**	**P -**	**P 3,441**
Investment in associates under equity method	**4,249**	**-**	**-**	**300**	**-**	**-**	**-**	**4,549**
Share in the profit of associates	**257**	**-**	**-**	**-**	**-**	**-**	**-**	**257**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
June 30, 2015 (Unaudited)								
Statement of Income								
Total interest income								
External	P 32,850	P 42	P 601	P 748	P -	P 29	P -	P 34,270
Intersegment	103	1	-	-	4	1	(109)	-
	32,953	43	601	748	4	30	(109)	34,270
Total interest expense								
External	6,860	-	127	212	-	-	-	7,199
Intersegment	5	36	-	52	-	17	(110)	-
	6,865	36	127	264	-	17	(110)	7,199
Net interest income	26,088	7	474	484	4	13	1	27,071
Other operating income								
Investment banking fees	-	477	-	-	-	-	-	477
Others	15,450	201	658	486	596	(328)	(1,119)	15,944
	15,450	678	658	486	596	(328)	(1,119)	16,421
Other operating expenses								
Depreciation and amortization	1,474	18	26	315	6	6	-	1,845
Impairment losses	2,081	2	-	50	-	-	-	2,133
Others	23,366	323	530	258	300	149	(69)	24,857
	26,921	343	556	623	306	155	(69)	28,835
Profit before tax	14,617	342	576	347	294	(470)	(1,049)	14,657
Tax expense	2,485	95	134	95	92	15	-	2,916
Net profit	P 12,132	P 247	P 442	P 252	P 202	(P 485)	(P 1,049)	P 11,741
Statement of Financial Position (December 31, 2015 Audited)								
Total resources								
Segment assets	P 1,944,884	P 6,851	P 51,527	P 34,510	P 956	P 8,983	(P 30,150)	P 2,017,561
Intangible assets	4,517	102	13	51	27	1	2,903	7,614
Deferred tax assets	6,271	(216)	58	(14)	10	(30)	-	6,079
	P 1,955,672	P 6,737	P 51,598	P 34,547	P 993	P 8,954	(P 27,247)	P 2,031,254
Total liabilities	P 1,761,203	P 5,082	P 46,024	P 29,331	P 776	P 1,642	(P 12,417)	P 1,831,641
Other segment information (June 30, 2015 Unaudited)								
Capital expenditures	P 2,387	P 6	P 12	P 633	P 3	P 11	P -	P 3,052
Investment in associates under equity method	5,639	89	-	-	-	-	-	5,728
Share in the profit of associates	374	9	-	-	-	-	-	383

5. CASH AND DUE FROM BANGKO SENTRAL NG PILIPINAS

These accounts are composed of the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash and other cash items	**P 30,902**	P 42,729
Due from BSP		
Mandatory reserves	**276,614**	259,028
Other than mandatory reserves	**41,389**	12,780
	318,003	271,808
	P 348,905	P 314,537

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rates of 2.5% in both 2016 and 2015.

6. DUE FROM OTHER BANKS

The balance of this account represents regular deposits with the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign banks	**P 38,916**	P 23,789
Local banks	**1,743**	1,048
	P 40,659	P 24,837

Annual interest rates on these deposits range from 0.01% to 6.88% and from 0.01% to 3.25% in 2016 and 2015, respectively. There are deposits, such as current accounts, which do not earn interest.

7. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Financial assets at fair value through profit or loss (FVTPL)	**P 15,955**	P 13,567
Available-for-sale (AFS) securities – net	**117,076**	212,192
Held-to-maturity (HTM) investments	**134,269**	-
	P 267,300	P 225,759

7.1 Financial Assets at FVTPL

This account is composed of the following:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Derivative financial assets	**P 5,828**	P 5,461
Government securities	**5,408**	4,855
Other debt securities	**2,793**	3,054
	14,029	13,370
Equity securities – quoted	**1,926**	197
	P 15,955	P 13,567

Annual coupon interest rates on government and other debt securities range from 1.63% to 11.63% in 2016 and 0.08% to 10.60% in 2015.

7.2 AFS Securities

BDO Unibank Group's AFS securities consist of the following:

	Note	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Government debt securities		**P 56,095**	P 137,181
Other debt securities			
Quoted		**46,618**	68,071
Not quoted		**764**	243
Equity securities			
Quoted		**16,846**	9,894
Not quoted		**722**	739
		121,045	216,128
Allowance for impairment	12	**(3,969)**	(3,936)
		P 117,076	P 212,192

Government debt securities issued by the Republic of the Philippines and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual coupon rates ranging from 1.63% to 11.63% both in 2016 and 2015.

BDO Unibank Group's trading and investment securities amounting to P4,715 and P4,745 as of June 30, 2016 and December 31, 2015, respectively, are pledged as collaterals to secure certain borrowings presented under Bills Payable account in the consolidated statement of financial position (see Note 14).

In 2013, the BDO Unibank Group reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 in anticipation of its planned disposal in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*. As of June 30, 2016 and December 31, 2015, the market value of the remaining reclassified investments of BDO Unibank Group amounted to P2,804 and P9,335, respectively.

7.3 HTM Investments

As of June 30, 2016 (unaudited), this account consists of:

Government debt securities	P 110,784
Other debt securities – quoted	23,485
	P 134,269

After the end of the two-year tainting period, the Group reclassified AFS securities with a carrying value of P107,669 to HTM investments.

Annual coupon interest rates on government and other debt securities range from 1.15% to 10.25% in 2016.

8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Receivables from customers:			
Loans and discounts	21	**P 1,271,515**	P 1,185,248
Customers' liabilities under letters of credit and trust receipts		**47,192**	46,861
Bills purchased		**9,835**	8,693
Others		**40,890**	39,922
		1,369,432	1,280,724
Unearned interest or discounts		**(1,265)**	(1,372)
Allowance for impairment	12	**(26,335)**	(26,226)
		(27,600)	(27,598)
		1,341,832	1,253,126
Other receivables:			
Interbank loans receivables		**48,531**	51,979
Securities purchased under reverse repurchase agreement		**20,434**	69,490
Accounts receivable	21, 27.1.1	**5,215**	6,446
Sales contract receivables		**1,774**	2,091
Unquoted debt securities classified as loans		**953**	982
Others		**417**	71
		77,324	131,059
Allowance for impairment	12	**(1,610)**	(1,433)
		75,714	129,626
		P 1,417,546	P 1,382,752

The Group's credit concentration of receivable from customers (net of unearned interest or discounts) as to industry follows:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Real estate activities	**P 203,394**	P 184,770
Wholesale and retail trade	**192,698**	186,344
Financial and insurance activities	**166,611**	169,064
Electricity, gas, steam and air-conditioning supply	**162,062**	126,441
Manufacturing	**151,589**	149,197
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**110,296**	112,751
Transportation and storage	**55,963**	55,067
Accommodation and food service activities	**42,370**	38,478
Arts, entertainment and recreation	**27,789**	18,308
Construction	**25,845**	25,942
Information and communication	**21,902**	22,930
Agriculture, forestry and fishing	**15,094**	14,702
Human health and social work activities	**13,674**	11,497
Professional, scientific and technical services	**13,360**	17,409
Water supply, sewerage, waste management and remediation activities	**12,630**	13,450
Education	**11,185**	9,773
Mining and quarrying	**10,541**	11,149
Administrative and support services	**7,071**	6,794
Public administrative and defense; compulsory social security	**499**	257
Activities of extraterritorial organizations and bodies	**53**	28
Other service activities	**123,541**	105,001
	P 1,368,167	P 1,279,352

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Secured:		
Real estate mortgage	**P 169,449**	P 152,253
Chattel mortgage	**82,457**	78,359
Other securities	**109,153**	103,387
	361,059	333,999
Unsecured	**1,007,108**	945,353
	P 1,368,167	P 1,279,352

Loans and other receivables bear interest rates of 0.00% (e.g., non-performing loans and zero percent credit card installment program) to 4.00% per month in 2016 and 2015.

BDO Unibank Group's loans and other receivables amounting to P1,973 and P1,977 as of June 30, 2016 and December 31, 2015, respectively, are pledged as collateral to secure certain borrowings presented under Bills Payable account in the consolidated statement of financial position (see Note 14).

9. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of each of the periods ended June 30, 2016 and December 31, 2015 of premises, furniture, fixtures and equipment is shown below.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of period, net of accumulated depreciation, amortization and allowance for impairment	**P 24,995**	P 21,093
Additions	**2,517**	6,963
Depreciation and amortization charges for the period	**(1,838)**	(3,203)
Reclassification	**176**	287
Disposals	**(25)**	(136)
Impairment	**-**	(9)
Balance at end of period, net of accumulated depreciation, amortization and allowance for impairment	**P 25,825**	P 24,995

10. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. A reconciliation of the carrying amounts at the beginning and end of each of the periods ended June 30, 2016 and December 31, 2015 of investment properties is shown in the succeeding page.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Balance at beginning of period, net of accumulated depreciation and allowance for impairment	**P 14,633**	P 13,861
Additions	**925**	3,288
Disposals	**(289)**	(2,049)
Depreciation charges for the period	**(247)**	(430)
Reclassifications	**7**	(37)
Balance at end of period, net of accumulated depreciation and allowance for impairment	**P 15,029**	P 14,633

11. OTHER RESOURCES

Other resources consist of the following:

	Notes	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Deferred tax assets – net	25	**P 6,004**	P 6,079
Deposits under escrow	28.2	**5,313**	5,226
Equity investments		**4,549**	5,741
Goodwill	24	**4,403**	4,399
Branch licenses		**3,020**	3,020
Foreign currency notes and coins on hand		**2,702**	3,244
Real properties for development and sale		**1,681**	1,760
Retirement benefit assets		**1,497**	1,355
Margin deposits		**1,343**	1,776
Computer software – net		**1,257**	1,067
Non-current assets held for sale		**611**	567
Customer list – net		**502**	502
Prepaid documentary stamps		**467**	482
Interoffice float items – net		**115**	123
Dividend receivable		**71**	118
Returned checks and other cash items		**45**	112
Receivables from special purpose vehicles		**5**	5
Others		**9,317**	10,718
		42,902	46,294
Allowance for impairment	12	**(2,557)**	(2,553)
		P 40,345	P 43,741

11.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Acquisition costs:			
SM Keppel Land, Inc.	50%	**P 1,658**	P 1,658
Manila North Tollways Corporation	12%	**1,405**	1,405
MMPC Auto Financial Services Corporation (MAFSC)	40%*	**300**	-
Northpine Land, Inc.	20%	**232**	232
Taal Land, Inc.	33%	**170**	170
GPHCI	**	**-**	1,235
Others	***	**10**	10
Total acquisition costs		**3,775**	4,710
Accumulated equity in total comprehensive income:			
Balance at beginning of year		**1,031**	1,181
Equity in net profit		**257**	837
Equity in other comprehensive income (loss)		**4**	(356)
Reclassification		**-**	(501)
Step up acquisition of BDO Life	**	**(335)**	-
Dividends		**(183)**	(130)
Balance at end of year		**774**	1,031
Net investments in associates		**4,549**	5,741
Allowance for impairment		**(39)**	(39)
		P 4,510	P 5,702

* *On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with Mitsubishi Motors Philippines Corporation (MMPC), Sojitz Corporation (SJC) and JACCS Co., Ltd. (JACCS) and caused the incorporation of MAFSC to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles (see Note 24.3).*

** *On June 30, 2016, the Parent Bank acquired additional 60% ownership interest in GPHCI, an entity engaged in life insurance business, making the latter a wholly-owned subsidiary of the Parent Bank. Thus, the accumulated equity in total comprehensive income amounting to P335 was reversed. Subsequently, GPHCI was renamed BDO Life (see Note 24.1).*

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

11.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by BDO Unibank Group in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by BDO Unibank Group with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. For the six months ended June 30, 2016, BDO Unibank Group recognized accrued income amounting to P86, which is presented as part of Miscellaneous under Other Operating Income account in the 2016 consolidated statement of income (see Note 19) (nil in 2015). Both as of June 30, 2016 and December 31, 2015, BDO Unibank Group provided an allowance for impairment amounting to P400.

11.3 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the BDO Unibank Group over the fair value of the net assets acquired at the date of acquisition, including branch licenses, and relates mainly to business synergy for economies of scale. 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. and CBN Grupo International Holdings B.V., Banco De Oro Savings Bank, Inc., and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014 and 2015, respectively.

11.4 Receivable from SPVs

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

Full allowance for impairment on the receivables from SPVs amounted to P5 as of June 30, 2016 and December 31, 2015. 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.

11.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. No impairment loss has been recognized both as of June 30, 2016 and December 31, 2015.

11.6 Others

Amortization expense on computer software licenses amounted to P197 and P124 for the six months ended June 30, 2016 and 2015, respectively, is presented as Amortization of intangibles under the Other Operating Expenses in the consolidated statements of income (see Note 19).

Depreciation expense on certain assets amounting to P7 and P39 for the six months ended June 30, 2016 and 2015, respectively, and are presented as part of Occupancy under Other Operating Expenses account in the consolidated statements of income (see Note 19).

In 2015, the Parent Bank recognized impairment loss amounting to P26 to write-down the value of Customer list account to its recoverable amount (nil in 2016). 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 of a certain bank in 2014.

12. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	**June 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
Balance at beginning of year:			
AFS securities	7.2	**P 3,936**	P 2,175
Loans and other receivables	8	**27,659**	28,172
Bank premises		**512**	432
Investment properties		**2,305**	2,423
Other resources	11	**2,553**	5,921
		36,965	39,123
Impairment losses – net		**1,692**	2,974
Write-offs		**(1,541)**	(5,456)
Business combination		**189**	752
Adjustments		**(29)**	(592)
Reversals		**(3)**	(25)
Foreign currency revaluation		**-**	189
Balance at end of year:			
AFS securities	7.2	**3,969**	3,936
Loans and other receivables	8	**27,945**	27,659
Bank premises		**512**	512
Investment properties		**2,290**	2,305
Other resources	11	**2,557**	2,553
		P 37,273	P 36,965

Total allowance for impairment transferred upon consolidation of BDO Life in 2016 and ONB in 2015 amounted to P189 and P752, respectively.

13. DEPOSIT LIABILITIES

The breakdown of this account is presented below.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Demand	P 102,032	P 104,066
Savings	1,128,133	1,033,652
Time	541,478	526,135
	P 1,771,643	P 1,663,853

The breakdown of this account as to currency follows:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Philippine pesos	P 1,431,338	P 1,347,327
Foreign currencies	340,305	316,526
	P 1,771,643	P 1,663,853

The maturity profile of deposit liabilities is presented below.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Less than one year	P 1,632,544	P 1,534,073
One to five years	57,371	55,013
Beyond five years	81,728	74,767
	P 1,771,643	P 1,663,853

BDO Unibank Group's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.00% to 5.25% for both 2016 and 2015. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest.

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of June 30, 2016 and December 31, 2015 as follows:

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

14. BILLS PAYABLE

This account is composed of the following borrowings from:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign banks	**P 34,144**	P 38,844
Senior notes	**14,345**	28,555
Local banks	**7,608**	8,153
Deposit substitutes	**569**	570
BSP	**19**	-
Others	**25,713**	21,421
	P 82,398	P 97,543

The other bills payable of the Group arose mostly from non-bank institutions.

The breakdown of this account as to currency follows:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign currencies	**P 58,777**	P 76,865
Philippine pesos	**23,621**	20,678
	P 82,398	P 97,543

The maturity profile of bills payable is presented below.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
One to three months	**P 28,551**	P 35,927
More than three months to one year	**23,158**	16,285
More than one to three years	**30,689**	44,123
More than three years	**-**	1,208
	P 82,398	P 97,543

Bills payable bears annual interest rate of 1.03% to 6.25% and 0.70% to 12.00% in 2016 and 2015, respectively. Certain bills payable to local banks and the BSP are collateralized by certain trading and investment securities and receivables from customers (see Notes 7.2 and 8).

Interest on bills payable amounted to P1,167 in 2016 and P1,073 in 2015 and is included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income.

14.1 Senior Notes

On February 16, 2012, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.448 or a total price of US$298. The Senior Notes, which will mature on February 16, 2017, bear a coupon rate of 4.5% per annum, with effective yield of 4.625% per annum, and will be payable semi-annually every February 16 and August 16 starting on August 16, 2012. The net proceeds from the issuance of Senior Notes are intended for general funding and relending purposes. As of June 30, 2016 and December 31, 2015, the related Senior Notes has a carrying amount of P14,345 and P14,337, respectively.

On October 22, 2010, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.632 or a total price of US$299. This Senior Notes, which matured on April 22, 2016, bears fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and was payable semi-annually every April 22 and October 22 starting in 2011. The net proceeds from the issuance are intended to support business expansion plans, and general banking and relending activities. As of December 31, 2015, the related Senior Notes has a carrying amount of P14,218 (nil as of June 30, 2016).

Interest on Senior Notes amounted to P499 in 2016 and P571 in 2015 and is included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income.

15. SUBORDINATED NOTES PAYABLE

As of June 30, 2016 and December 31, 2015, subordinated notes payable (the Notes) by the Parent Bank consist of the following:

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

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders.

The Notes were used to further expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

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

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

Total interest expense on the Notes included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income amounted to P259 both in 2016 and 2015.

16. INSURANCE CONTRACT LIABILITIES

As of June 30, 2016 (unaudited), this account consists of:

Legal policy reserves	P	16,963
Policy and contract claims payable		621
Policyholders' dividends		213
Reserves for policyholders' dividends		113
	P	**17,910**

Legal policy reserves represent estimates of present value of benefits in excess of present value of premium and also include the policyholders' share in net assets for variable-unit linked life insurance contracts (see Note 23). These estimates are based on interest rates, mortality/morbidity tables, and valuation method as contained in the product submissions approved by the Insurance Commission. The movement in Legal policy reserves for the period ended June 30, 2016 is recognized as part of Insurance benefits and claims under Other Operating Expenses in the consolidated statement of income (see Note 19).

17. OTHER LIABILITIES

Other liabilities consist of the following:

		June 30, 2016 (Unaudited)		December 31, 2015 (Audited)
Manager's checks	**P**	**10,475**	P	11,809
Accrued expenses		**10,069**		8,441
Accounts payable		**9,790**		13,208
Bills purchased – contra		**9,736**		8,592
Lease deposits		**5,403**		5,087
Derivative liabilities		**4,706**		4,167
Outstanding acceptances payable		**2,465**		1,762
Balance carried forward	**P**	**52,644**	P	53,066

		June 30, 2016 (Unaudited)		December 31, 2015 (Audited)
Balance brought forward	**P**	**52,644**	P	53,066
Premium deposit fund		**2,274**		-
Withholding taxes payable		**954**		1,386
Capitalized interest and other charges		**385**		385
Due to principal		**327**		375
Due to BSP and Treasurer of the Philippines		**81**		81
Unearned income		**12**		2
Others		**5,815**		4,920
	P	**62,492**	P	60,215

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

Interest expense on certain liabilities amounting to P42 and P4 in 2016 and 2015, respectively, are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the consolidated statements of income.

18. EQUITY

18.1 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 implemention 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, the 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 (CET1) 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 CET1 Capital.

The regulatory capital is analyzed as CET1 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 has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of P20,000. As of June 30, 2016 and December 31, 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 Common Equity Tier 1 (CET 1) capital.

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

BDO Unibank Group's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of June 30, 2016 and December 31, 2015 is presented in the succeeding page.

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Tier 1 Capital		
CET 1	**P 204,441**	P 191,489
Additional Tier 1	**5,150**	5,150
	209,591	196,639
Tier 2 Capital	**25,400**	24,612
Total Regulatory Capital	**234,991**	221,251
Deductions	**(21,327)**	(20,776)
Total Qualifying Capital	**P 213,664**	P 200,475
Total Risk Weighted Assets	**P 1,625,096**	P 1,503,291
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**13.1%**	13.3%
Tier 1 Capital Ratio	**11.6%**	11.7%
Total CET 1 Ratio	**11.3%**	11.4%

18.2 Capital Stock

Capital stock consists of the following:

	Number of Shares	
	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
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
Issued during the year	**1,847,820**	64,499,890
Balance at end of year	**3,647,223,038**	3,645,375,218
Preferred shares – P10 par value		
Authorized – 2,000,000,000 shares		
Issued, fully paid and outstanding	**515,000,000**	515,000,000

	Amount	
	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Common shares	**P 36,472**	P 36,453
Preferred shares	**P 5,150**	P 5,150

As of June 30, 2016, there are 12,864 holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares, while as of December 31, 2015, there were 12,835 holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. The listed shares closed at P112.00 per share as of June 30, 2016, while it closed at P105.00 per share as of December 29, 2015 (the last trading day in 2015).

On April 18, 2013, the Parent Bank launched its American Depositary Receipts (ADR) Level 1 Program. ADR Level 1 Program is a program wherein securities issued in the United States (US) representing BDO Unibank common shares can be traded over-the-counter. This provides flexibility for US investors to trade BDO Unibank common shares in their time zone and settle their transactions locally.

There is no outstanding ADR as of June 30, 2016. As of December 31, 2015, 200 ADRs valued at US$4,346 (absolute amount) remained outstanding (computed using ADR closing price of US$21.73/share).

18.3 Surplus Free

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 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 are P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

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, a subsidiary of the Parent Bank, 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 paid on March 24, 2015, of which, total dividends paid to non-controlling interest amounted to P43.

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

On January 10, 2015, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2014 earnings. On April 24, 2015, the Parent Bank's BOD also declared special cash dividend of P0.90 per share. Total dividends are P2.10 per share or P7,520. 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.

18.4 Surplus Reserves

As of June 30, 2016 and December 31, 2015, the Parent Bank appropriated its Surplus Free amounting to P14 and P25, respectively, representing insurance fund on losses due to fire and robbery. These were approved by the Parent Bank's BOD in its meetings.

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 28.1).

Also, included in the 2016 and 2015 surplus reserve are appropriations made by BDO Securities and ASI, subsidiaries of the Parent Bank, totaling P11 and P0.4, 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 profit from trust business of BDO Private, a subsidiary of the Parent Bank, amounting to P59 and P44, in 2016 and 2015, respectively, is appropriated to surplus reserve.

18.5 Others

On February 16, 2015, the BOD of Equimark, a subsidiary of Parent Bank, 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 was paid to non-controlling interest. Such redemption of capital stock was approved by the Securities and Exchange Commission on May 18, 2015.

19. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		For the Six Months Ended	
	Notes	**June 30, 2016 (Unaudited)**	June 30, 2015 (Unaudited)
Service charges and fees	21	**P 9,094**	P 7,580
Insurance premiums		**3,918**	-
Trading gain – net		**2,304**	4,388
Trust fees		**1,537**	1,411
Foreign exchange gain – net		**943**	984
Rental income		**730**	613
Income from assets acquired		**450**	489
Dividends	21	**215**	246
Recovery on charge-off assets		**168**	116
Miscellaneous	11.2	**2,747**	594
		P 22,106	P 16,421

Other operating expenses consist of the following:

	Notes	For the Six Months Ended June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Employee benefits	20	**P 10,731**	P 9,252
Occupancy	11.6, 21, 27.2	**3,724**	3,116
Taxes and licenses		**3,570**	2,980
Fees and commissions		**3,031**	1,705
Insurance benefits and claims	16	**3,012**	-
Insurance		**1,841**	1,585
Advertising		**1,536**	1,292
Security, clerical, messengerial and janitorial		**1,423**	1,263
Representation and entertainment		**719**	639
Repairs and maintenance		**582**	468
Travelling		**526**	452
Power, light and water		**471**	441
Supplies		**262**	217
Information technology		**261**	194
Amortization of intangibles	11.6	**197**	124
Litigation on assets acquired		**154**	66
Miscellaneous		**2,912**	2,908
		P 34,952	P 26,702

20. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below.

	For the Six Months Ended June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Salaries and wages	**P 6,909**	P 6,000
Bonuses	**1,607**	1,402
Retirement – defined benefit plan	**573**	548
Social security costs	**277**	241
Other benefits	**1,365**	1,061
	P 10,731	P 9,252

21. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's transactions with its related parties as of and for the periods ended June 30, 2016 and 2015 and outstanding balances as of June 30, 2016 and December 31, 2015 are as follows:

Related Party Category	Notes	June 30, 2016 (Unaudited) Amount of Transaction	June 30, 2016 (Unaudited) Outstanding Balance	June 30, 2015 (Unaudited) Amount of Transaction	December 31, 2015 (Audited) Outstanding Balance
DOSRI Loans	21 (a)				
Related Parties Under Common Ownership		**P 32,416**	**P 25,212**	P 4,658	P 16,217
Stockholders		**6,289**	**10,959**	4,165	12,012
Officers and employees		**605**	**1,482**	495	1,455
Deposit Liabilities	21 (b)				
Related Parties Under Common Ownership		**245,812**	**11,813**	252,758	15,513
Stockholders		**193,519**	**60,575**	182,068	61,034
Officers and employees		**17**	**6**	-	3
Other Transactions with:					
Associates	21 (d)				
Loans and Advances		**-**	**728**	-	1,225
Dividend Income		**183**	**-**	7	-
Interest Income		**-**	**29**	17	59
Service Fees		**-**	**-**	114	14
Related Parties Under Common Ownership	21 (d)				
Rent Expense		**428**	**89**	356	78
Key Management Personnel	21 (d)				
Compensation		**555**	**-**	542	-
Retirement Plan	21 (c)	**5**	**3,522**	221	3,081

In the ordinary course of business, BDO Unibank Group has loans, deposits and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI) as described below and in the succeeding pages.

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group, these loans are made on 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. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group, whichever is lower. As of June 30, 2016 and December 31, 2015, BDO Unibank Group is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	June 30 2016 (Unaudited)	December 31, 2015 (Audited)
Total DOSRI loans	**P 37,653**	P 29,684
Unsecured DOSRI loans	**1,149**	1,148
Past due DOSRI loans	**-**	-
Non-performing DOSRI loans	**-**	-
% of DOSRI loans to total loan portfolio	**2.8%**	2.3%
% of unsecured DOSRI loans to total DOSRI loans	**3.1%**	3.9%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%

DOSRI loans bear annual interest rates of 0.0% to 12.0% in 2016 and 2015 (except for credit card receivables which bear a monthly interest rate of 0% to 3.6%).

Total DOSRI loans 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 twenty years.

Total DOSRI loan releases and collections in 2016 amounted to P39,310 and P31,242, respectively.

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

(b) Deposits from Related Parties

As of June 30, 2016 and December 31, 2015, total deposits made by the related parties to the Parent Bank amounted to P439,348 and P838,032, respectively. The related interest expense from deposits amounted to P1,181 and P441 for the six months ended June 30, 2016 and 2015, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended June 30, 2016 and December 31, 2015 as follows:

	June 30, 2016 (Unaudited)		June 30, 2015 (Unaudited)	December 31, 2015 (Audited)
Related Party Category	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	**P -**	**P 47**	P -	P 54
BDO Leasing	**-**	**1**	-	1
Investment in shares of :				
BDO Unibank, Inc.	**-**	**15**	-	14
BDO Leasing	**-**	**2**	-	1

Related Party Category	June 30, 2016 (Unaudited) Amount of Transaction	June 30, 2016 (Unaudited) Outstanding Balance	June 30, 2015 (Unaudited) Amount of Transaction	December 31, 2015 (Audited) Outstanding Balance
Deposit liabilities				
BDO Unibank, Inc.	**P -**	**P 3,457**	P -	P 3,011
Trading gain				
BDO Unibank, Inc.	**3**	**-**	219	-
Interest expense				
BDO Unibank, Inc.	**2**	**-**	2	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P3,457 and P3,337 as of June 30, 2016 and 2015, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P2 both in 2016 and 2015.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with associates and other related parties is shown below and in the succeeding page. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Other transactions of the Parent Bank with associates are shown below.

(1) Loans and Advances to Associates

As of June 30, 2016 and December 31, 2015, outstanding loans and advances to associates amounted to P728 and P1,225, respectively. The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the consolidated statements of financial position (see Note 8). These loans are payable between five to seven years. BDO Unibank Group recognized P29 and P17 interest income on these loans for the six months ended June 30, 2016 and 2015, respectively. Annual interest rate on these loans ranges from 0.00% to 12.00% for the six months ended June 30, 2016 and 2015. As of June 30, 2016 and December 31, 2015, there were no impairment losses recognized on these loans and advances.

(2) Income to the Parent Bank

As of June 30, 2016, the Group has fully acquired GPHCI, making the latter a subsidiary of the former (see Note 24.1). However, prior to the full acquisition of GPHCI, the Group has recorded its share in the income of GPHCI during the period ending June 30, 2015, pertaining to management fees 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. This income pertains to the Group's share when GPHCI was still its associate. Total service fees for the six months ended June 30, 2015 amounted to P24 and is presented as part of Service charges and fees under Other Operating Income in the consolidated statements of income (see Note 19).

The Parent Bank also entered into a bancassurance agreement with GPHCI in relation to the sale of policy insurance contracts to the clients of the Parent Bank through GPHCI's financial advisors. Total service fees for the six months ended June 30, 2015 amounted to P90 and is presented as part of Service charges and fees under Other Operating Income in the consolidated statements of income (see Note 19).

For the six months ended June 30, 2016 and 2015, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P183 and P7, respectively. These are presented as part of Dividends under Other Operating Income in the statements of income (see Note 19).

(ii) Other transactions of the Parent Bank with related parties under common ownership are shown below.

(1) *Expenses of the Parent Bank*

The Parent Bank leases space from related parties for its branch operations. Total rent expense charged by related parties under common ownership for the six months ended June 30, 2016 and 2015 is included as part of Occupancy account under Other Operating Expenses (see Note 19).

(2) The salaries and other compensation given to the BDO Unibank Group's key management are as follows:

	For the Six Months Ended	
	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Salaries and wages	**P 448**	P 407
Bonuses	**106**	95
Social security costs and other benefits	**1**	40
	P 555	P 542

22. 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 the accompanying consolidated statements of financial position since these are not properties of the BDO Unibank Group (see Note 27.3).

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Investments	**P 947,709**	P 910,720
Others	**8,108**	6,627
	P 955,817	P 917,347

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions, 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 June 30, 2016 and December 31, 2015, the additional reserve for trust functions amounted to P59 and P215, respectively, for BDO Unibank Group and is included as part of Surplus Reserves account in the consolidated statements of changes in equity.

23. 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 the Company. The VUL funds are managed by BDO – Trust and Investment Group.

As of June 30, 2016, BDO Life has ten VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the consolidated financial statements.

Assets:		
Cash and cash equivalents	P	59
Financial assets at FVTPL		2,356
Other receivables		62
	P	**2,477**
Liabilities and Equity:		
Other liabilities	P	87
Net assets attributable to unitholders (see Note 16)		2,390
	P	**2,477**

24. MERGERS AND ACQUISITIONS

24.1 Acquisition of Generali

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of GPHCI, which owns Generali Pilipinas Life Assurance Company (GPLAC), a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by 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 GPHCI.

As of June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of GPHCI from the Generali Group for a cash consideration amounting to P2,100, making the latter a wholly-owned subsidiary of the former. The transaction resulted in the recognition of gain on acquisition of subsidiary amounting to P2,141. Pre-acquisition income arising from the step-up acquisition amounted to P489. Subsequently, GPHCI was renamed BDO Life (see Notes 1.2 and 11.1).

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	P	27,454
Insurance liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net asset position		6,371
Equity share in associate	(	1,987)
Cost of investment	(	2,243)
Gain on acquisition	P	2,141

24.2 Joint Venture Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in a Joint Venture Investment Agreement (Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 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.

24.3 Joint Venture Investment Agreement with MMPC, SJC and 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 hold the remaining 60% stake (see Note 11.1).

24.4 Acquisition of ONB

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%. Total goodwill recognized in 2015 amounted to P2,903.

On February 19, 2016, the Parent Bank acquired additional 219,154 ONB common shares from its total issued and outstanding capital stock for cash of P6 increasing its shareholdings in ONB by 0.0886%. On March 31, 2016, another 83,147 ONB common shares were purchased by the Parent Bank for cash of P2 in exchange for an additional 0.0336% interest in ONB. On May 31, 2016, 3,043 ONB common shares were purchased by the Parent Bank for cash of P82,569 (absolute amount) increasing its shareholdings in ONB by 0.0012%. These additional purchases of ONB common shares by the Parent Bank during the six-month period ending June 30, 2016 increased its total shareholdings in ONB to 99.75%. 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.

24.5 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by its wholly owned subsidiary, BDO Capital, in CBN Grupo by way of a subscription of 3,273,000 CBN Grupo shares for a total subscription amount of €3. Upon completion of the proposed investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The transaction is still subject to the necessary regulatory approval as of June 30, 2016.

25. TAXES

The major components of tax expense reported in the consolidated statements of income follow:

	For the Six Months Ended	
	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Reported in profit or loss:		
Current tax expense	**P 3,319**	P 2,797
Deferred tax expense relating to origination and reversal of temporary differences	**92**	119
	P 3,411	P 2,916
Reported in other comprehensive income:		
Movement in fair value of AFS securities	**P 176**	P 5
Movement in revaluation increment	**-**	(6)
	P 176	(P 1)

The components of the net deferred tax assets (see Note 11) follow:

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Deferred tax assets:		
Allowance for impairment	P 6,123	P 6,117
Unamortized past service cost	1,358	1,445
Lease income differential – PAS 17	106	106
Net operating loss carryover	20	17
Others	78	44
	7,685	7,729
Deferred tax liabilities:		
Retirement asset	775	776
Revaluation increment	432	432
Changes in fair values of AFS securities	250	74
Lease income differential – PAS 17	87	85
Capitalized interest	54	56
Others	83	227
	1,681	1,650
Net deferred tax assets	P 6,004	P 6,079

26. EARNINGS PER SHARE

26.1 Basic Earnings Per Share

Basic earnings per share are computed as follows:

	For the Six Months Ended	
	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	P 13,231	P 11,723
Less dividends in arrears on preferred shares	339	339
Total	12,892	11,384
Divided by the weighted average number of outstanding common shares (in millions)	3,645	3,581
Basic earnings per share	P 3.54	P 3.18

26.2 Diluted Earnings Per Share

Diluted earnings per share are computed as follows:

	For the Six Months Ended	
	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	**P 12,892**	P 11,384
Divided by the weighted average number of outstanding common shares (in millions)	**3,645**	3,581
Diluted earnings per share	**P 3.54**	P 3.18

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

** *Potential common shares from assumed conversion of 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.*

27. COMMITMENTS AND CONTINGENT LIABILITIES

27.1 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 June 30, 2016, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's consolidated financial position.

27.1.1 PEACe Bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (TRO) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow. While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

On November 27, 2012, the Petitioning Banks filed a Manifestation With Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated November 27, 2012 ("Manifestation/Reiterative Motion"), praying that the Supreme Court issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to Petitioners to enable them to comply with the Honorable Court's "condition that the 20% final withholding tax on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On February 7, 2013, the Petitioners received Respondents' Motion asking for a period of thirty (30) days from February 4, 2013, or until March 6, 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated February 12, 2013, the Supreme Court granted Respondents' Motion.

On April 17, 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated April 11, 2013. On June 5, 2013, the Petitioners filed a Reply to said Comment. By Resolutions dated June 10, 2013 and July 9, 2013, respectively, the Supreme Court admitted the Petitioners-Intervenors RCBC and RCBC Capital's Reply and Petitioners' Reply.

On January 13, 2015, the Supreme Court En Banc promulgated its Decision nullifying BIR Ruling Nos. 370-2011 and DA 378-2011, and ordering the Bureau of Treasury to immediately release and pay to the bondholders the amount corresponding to the 20% final withholding tax that it withheld on October 18, 2011.

On March 16, 2015, Intervenors RCBC and RCBC Capital Corporation filed their Motion for Clarification and/or Partial Reconsideration. On April 13, 2015, the Respondents filed their Motion for Reconsideration and Clarification.

On April 21, 2015, the Supreme Court en banc issued a Resolution requiring the Petitioners to file a Comment on the Motions filed by the Intervenors and the Respondents.

On July 6, 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and Intervenors' Motion for Clarification and/or Partial Reconsideration (Petitioners' Consolidated Comment).

On July 28, 2015, the Supreme Court en banc issued a Resolution noting the Petitioner's Consolidated Comment, noting the Intervenors' Comment on the Respondents' Motion for Reconsideration and Clarification (Intervenors' Comment), and requiring the Office of the Solicitor General (OSG), on behalf of the Respondents, to file a Reply to the Petitioners' Consolidated Comment and Intervenors' Comment (Respondents' Reply) within ten days from receipt of Notice of Resolution.

On October 29, 2015, Petitioners received the Respondents' Reply dated October 19, 2015 and filed an Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated October 22, 2015 which is still pending before the Supreme Court En Banc. As of January 19, 2016, Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated March 13, 2015, and RCBC and RCAP's Motion for Clarification and/or Partial Reconsideration dated March 16, 2015. Likewise, petitioners are still awaiting the Supreme Court's Resolution on our Urgent Reiterative Motion.

The Parent Bank continues to believe that petitioning banks have a strong case, and the 20% FWT amounting to P690 under Accounts receivable account presented under Loans and Other Receivables in the consolidated statements of financial position is recoverable (see Note 8).

27.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, nineteen banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. BDO Unibank, Inc. and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 29, 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief, and a Supplemental Motion for Reconsideration on July 7, 2015.

On August 5, 2015, the Petitioners filed their Comment on the BIR's Supplemental Motion for Reconsideration. The Petitioners also filed their Consolidated Reply to the Consolidated Comments of Respondents BIR and Department of Finance. To date, RTC Makati has not yet resolved Respondent BIR's Supplemental Motion for Reconsideration, dated June 20, 2015, which seeks the reconsideration of RTC Makati's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of September 7, 2015, RTC Makati issued an Order allowing Development Bank of the Philippines (DBP) and UOBP to intervene in the case. As of January 19, 2015, RTC Makati has not yet resolved UOBP's application for the issuance of a Writ of Preliminary Injunction.

On October 19, 2015, Land Bank of the Philippines (LBP) filed a Motion for Leave to Admit LBP's Petition-in-Intervention. As of January 19, 2016, RTC Makati has not yet resolved LBP's Motion to Intervene.

On November 10, 2015, RTC Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

The case remains pending as of June 30, 2016.

27.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of June 30, 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.

27.2 Leases

The BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from 1 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 Expense account in the interim consolidated statements of income, amounted to P1,210 and P1,179 for the six months ended June 30, 2016 and 2015, respectively (see Note 19).

As of June 30, 2016 (unaudited), the estimated minimum future annual rentals follow:

Within one year	P	2,497
More than one year but not more than five years		12,502
More than five years		4,653

27.3 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 the accompanying BDO Unibank Group consolidated financial information. 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 June 30, 2016, no additional material losses or liabilities are required to be recognized in the accompanying consolidated financial information of BDO Unibank Group as a result of these commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

	Note	**June 30, 2016 (Unaudited)**		December 31, 2015 (Audited)	
Trust department accounts	22	**P**	**955,817**	P	917,347
Committed credit lines			**159,110**		132,385
Forward exchange sold			**153,409**		104,736
Forward exchange bought			**150,036**		94,826
Unused commercial letters of credit			**45,067**		41,888
Outstanding guarantees issued			**26,776**		18,916
Interest rate swap payable			**19,912**		16,554
Interest rate swap receivable			**19,912**		16,554
Spot exchange sold			**18,528**		6,738
Republic of the Philippines warrants			**15,021**		15,021
Bills for collection			**4,433**		5,213
Spot exchange bought			**3,774**		3,000
Late deposits/payments received			**2,792**		2,404
Export letters of credit confirmed			**1,181**		2,577
Other contingent accounts			**2,294**		2,194

28. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

On July 22, 2015, the shareholders of BDO Capital, BDO Elite and BDO Savings approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 99.64% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The merger will involve the issuance of shares by BDO Capital to the Parent Company and other shareholders of the companies to be absorbed.

The merger was approved by the SEC on June 30, 2016. Approved documents were received on July 21, 2016. Thus, the consolidation took effect on July 31, 2016.

28.2 Partial Receipt of Deposits Under Escrow

On August 26, 2016, BDO Unibank Group received an amount of P4,650 for the partial termination of escrow account relating to its assumption of First e-Bank Corporation's deposits and other liabilities (see Note 11.2).

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Report of Independent Auditors

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of a Matter

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

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

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

February 27, 2016

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos Except Per Share Data)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

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

	Notes	BDO Unibank Group 2015	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2015	Parent Bank 2014	Parent Bank 2013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**(P 33,976)**	(P 27,711)	P 280,172	**(P 47,171)**	(P 15,004)	P 261,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**41,342**	27,824	21,539	**41,237**	27,736	21,512
Due from Bangko Sentral ng Pilipinas	7	**269,542**	408,383	156,591	**258,416**	384,361	151,303
Due from other banks	8	**45,621**	26,939	12,645	**43,165**	24,655	11,488
Securities purchased under reverse repurchase agreement	10	**86,173**	8,407	941	**86,173**	8,407	-
Foreign currency notes and coins	13	**3,406**	2,242	1,907	**3,406**	2,242	1,907
		446,084	473,795	193,623	**432,397**	447,401	186,210
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**42,729**	41,342	27,824	**41,767**	41,237	27,736
Due from Bangko Sentral ng Pilipinas	7	**271,808**	269,542	408,383	**260,841**	258,416	384,361
Due from other banks	8	**24,837**	45,621	26,939	**20,944**	43,165	24,655
Securities purchased under reverse repurchase agreement	10	**69,490**	86,173	8,407	**58,431**	86,173	8,407
Foreign currency notes and coins	13	**3,244**	3,406	2,242	**3,243**	3,406	2,242
		P 412,108	P 446,084	P 473,795	**P 385,226**	P 432,397	P 447,401

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

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

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

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

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

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

Other Information

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

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

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

1.2 Approval of Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

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

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

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

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

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the BDO Unibank Group's financial statements since BDO Unibank Group's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

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

Annual Improvements to PFRS (2010-2012 Cycle)

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

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

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

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

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

Annual Improvements to PFRS (2011-2013 Cycle)

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

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

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

(b) *Effective Subsequent to 2015 but not Adopted Early*

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

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

(iii) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9. As of the end of the reporting period, BDO Unibank Group has no plan to change the accounting policy for its investments in subsidiaries and associates.

(iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

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

(vi) PFRS 10 (Amendment), *Consolidated Financial Statements - Investment Entities: Applying the consolidation exception* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(vii) PFRS 11 (Amendment), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

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

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

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

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

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

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

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

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

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

(ix) Annual improvements to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016. Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect those to have material impact on the BDO Unibank Group's financial statements:

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

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

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

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

2.3 Basis of Consolidation

The Parent Bank obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in resources are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

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

Subsidiaries	Percentage of Ownership 2015	2014	2013
Others			
PCI Realty Corporation	**100%**	100%	100%

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

2.4 Segment Reporting

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

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

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

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

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

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

2.5 Financial Assets

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

2.5.1 Classification and Measurement of Financial Assets

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

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

(a) Financial Assets at FVTPL

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

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

(b) Loans and Receivables

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

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

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

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

(c) HTM Investments

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

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

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

(d) *AFS Securities*

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

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

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

2.5.2 Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Carried at Cost – AFS Financial Assets

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

(c) Carried at Fair Value – AFS Financial Assets

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

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

2.5.3 Items of Income and Expense Related to Financial Assets

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

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

2.5.4 Derecognition of Financial Assets

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

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

2.6 Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

2.7 Premises, Furniture, Fixtures and Equipment

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

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

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

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

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

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

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

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

2.8 Investment Properties

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

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

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

2.9 Real Properties for Development and Sale

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

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

2.10 Non-current Assets Held for Sale

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

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

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

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

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

2.11 Equity Investments

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

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

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

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

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

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

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

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

2.12 Business Combination

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

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

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

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

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

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

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

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

2.13 Prepayments and Other Resources

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

2.14 Intangible Assets

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

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

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

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

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

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

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

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

2.15 Financial Liabilities

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

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

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

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

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

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

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

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

2.16 Offsetting Financial Instruments

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

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

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

2.18 Equity

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

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

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

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

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

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

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

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

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

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

2.19 Related Party Relationships and Transactions

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

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

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

2.20 Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

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

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

2.21 Provisions and Contingencies

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

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

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

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

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

(b) *BDO Unibank Group as Lessee*

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

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

2.23 Impairment of Non-financial Assets

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

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

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.24 Foreign Currency Transactions and Translations

(a) *Foreign Currency Transactions*

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

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

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

(b) Foreign Currency Translation

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

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

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

ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

iii. All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

2.25 Compensation and Benefits Expense

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

(a) Post-employment Defined Benefit

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

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Bonus Plans

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

(e) Executive Stock Option Plan

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

(f) Unavailed Leaves

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO under (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 27).

2.27 Earnings Per Share

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

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

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

2.28 Trust Activities

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

2.29 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Classifying Financial Assets as HTM Investments*

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

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

(b) Evaluating Impairment of AFS Securities

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

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

(c) Distinguishing Investment Properties and Owner-occupied Properties

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

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

(d) Distinguishing Operating and Finance Leases

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

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

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

(f) *Recognition of Provisions and Contingencies*

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

3.2 Key Sources of Estimation Uncertainty

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

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

BDO Unibank Group reviews its AFS securities, HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

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

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

(b) Fair Value Measurement for Financial Instruments

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

(c) Determining Fair Value of Derivatives

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

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

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

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

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other properties are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2015 and 2014, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties during those years.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

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

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

(f) Determining Realizable Amount of Deferred Tax Assets

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

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

(g) Impairment of Non-financial Assets

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

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

(h) Valuation of Post-employment Defined Benefit

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

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

(i) Recognition of Reward Points

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

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

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

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

4. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

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

BDO Unibank Group

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

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

BDO Unibank Group

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

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

Parent Bank

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

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

Parent Bank

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

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

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

4.2.2 Interest Rate Risk

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

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

BDO Unibank Group

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

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

BDO Unibank Group

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

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

Parent Bank

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

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

Parent Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

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

BDO Unibank Group

	2015 Change in interest rates (in basis points) -100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,335)**	**P 3,335**	**(P 1,668)**	**P 1,668**
As a percentage of the BDO Unibank Group's net interest income for 2015	**(5.9%)**	**5.9%**	**(2,9%)**	**2.9%**
Earnings-at-risk	**P 8,254**			

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

Parent Bank

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

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

4.2.3 Price Risk

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

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

BDO Unibank Group

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

Parent Bank

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

4.3 Credit Risk

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

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

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

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

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

4.3.1 Exposure to Credit Risk

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

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

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

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

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

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

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

(c) Adversely Classified

i. Loans Especially Mentioned (LEM)

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

ii. Substandard

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

iii. Doubtful

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

iv. Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

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

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

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

BDO Unibank Group

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

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

BDO Unibank Group

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

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

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

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

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

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

Parent Bank

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

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

Parent Bank

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

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

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

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

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

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

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

4.3.2 Collateral Held as Security and Other Credit Enhancements

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

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

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Individually impaired				
Property	**P 9,708**	P 7,301	**P 8,852**	P 5,464
Equity security	**2,571**	4,232	**2,571**	3,845
Hold-out deposits	**29**	27	**29**	27
Debt security	**1**	-	**1**	-
Others	**1,289**	1,224	**1,289**	1,224
	13,598	12,784	**12,742**	10,560
Collectively impaired				
Property	**7,146**	7,746	**7,146**	7,746
Hold-out deposits	**-**	2	**-**	2
Others	**6,417**	3,807	**6,417**	3,807
	13,563	11,555	**13,563**	11,555
Balance carried forward	**P 27,161**	P 24,339	**P 26,305**	P 22,115

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance brought forward	**P 27,161**	P 24,339	**P 26,305**	P 22,115
Past due but not impaired				
Property	**1,692**	2,231	**1,674**	2,210
Hold-out deposits	**13**	27	**13**	27
Debt security	**-**	6	**-**	6
Others	**1,491**	584	**1,491**	584
	3,196	2,848	**3,178**	2,827
Neither past due nor impaired				
Property	**457,885**	433,182	**412,119**	409,090
Equity security	**127,999**	152,214	**127,036**	151,934
Hold-out deposits	**78,696**	78,709	**78,696**	78,709
Debt security	**1,762**	4,532	**1,466**	4,101
Others	**334,996**	389,866	**334,655**	389,798
	1,001,338	1,058,503	**953,972**	1,033,632
	P 1,031,695	P 1,085,690	**P 983,455**	P 1,058,574

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

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

4.3.3 Concentrations of Credit Risk

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

BDO Unibank Group

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

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

Parent Bank

	2015			2014		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 385,226**	**P 166,885**	**P 111,475**	P 432,397	P 179,415	P 109,896
Wholesale and retail traded	**-**	**180,861**	**503**	-	158,622	513
Real estate activities	**-**	**178,859**	**18,285**	-	112,264	17,982
Manufacturing	**-**	**145,096**	**17,880**	-	134,201	18,523
Electricity, gas, steam and air-conditioning supply	**-**	**125,008**	**-**	-	101,667	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**110,557**	**-**	-	112,172	-
Transportation and storage	**-**	**51,290**	**1,876**	-	47,566	1,439
Accommodation and food service activities	**-**	**38,375**	**-**	-	32,827	-
Information and communication	**-**	**22,278**	**-**	-	24,897	
Construction	**-**	**21,718**	**-**	-	19,955	-
Professional, scientific and technical services	**-**	**17,191**	**-**	-	15,010	-
Arts, entertainment and recreation	**-**	**15,636**	**-**	-	15,075	-
Water supply, sewerage waste management and remediation activities	**-**	**12,876**	**-**	-	13,411	-
Agriculture, forestry and fishing	**-**	**11,318**	**-**	-	9,016	-
Human health and social work activities	**-**	**10,651**	**-**	-	8,901	-
Mining and quarrying	**-**	**9,438**	**-**	-	4,542	-
Administrative and support services	**-**	**6,028**	**-**	-	4,469	-
Education	**-**	**2,376**	**-**	-	1,794	-
Public administrative and defense; compulsory social security	**-**	**116**	**-**	-	303	-
Activities of extraterritorial and organizations bodies	**-**	**28**	**-**	-	53	-
Other service activities	**-**	**104,241**	**43,311**	-	70,420	41,977
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330
Concentration by location:						
Philippines	**P 364,859**	**P 1,150,764**	**P 157,355**	P 391.093	P 1,001,024	P 152,359
Others	**20,367**	**80,062**	**35,975**	41,304	65,556	37,971
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330

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

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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

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

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

5. SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

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

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 41,342	P -	P 41,342	P 41,342
Due from BSP	269,542	-	269,542	269,542
Due from other banks	45,621	-	45,621	45,621
Loans and other receivables	1,212,930	-	1,212,930	1,229,918
Other resources	7,551	-	7,551	7,951
Financial assets at FVTPL	-	8,768	8,768	8,768
AFS securities*	-	212,407	212,407	212,407
	P 1,576,986	P 221,175	P 1,798,161	P 1,815,549

	2014							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	1,492,282	P	-	P	1,492,282	P	1,476,026
Bills payable		100,361		-		100,361		100,955
Subordinated notes payable		10,030		-		10,030		10,347
Other liabilities		75,905		-		75,905		75,905
At fair value –								
Other liabilities		-		2,580		2,580		2,580
	P	1,678,578	P	2,580	P	1,681,158	P	1,665,813

Parent Bank

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

Parent Bank

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

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

6.2 Fair Value Hierarchy

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

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

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

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

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

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

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

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

6.3 Financial Instruments Measured at Fair Value

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

BDO Unibank Group

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 5,461**	**P -**	**P 5,461**
Government bonds		**4,855**	**-**	**-**	**4,855**
Other debt securities		**3,054**	**-**	**-**	**3,054**
Equity securities – quoted		**197**	**-**	**-**	**197**
		8,106	**5,461**	**-**	**13,567**
AFS securities – net:	9.2				
Government debt securities		**137,161**	**-**	**-**	**137,161**
Other debt securities		**67,011**	**-**	**-**	**67,011**
Equity securities – quoted		**7,585**	**186**	**-**	**7,771**
		211,757	**186**	**-**	**211,943**
		P 219,863	**P 5,647**	**P -**	**P 225,510**
Liabilities –					
Derivatives with negative fair values	18	**P 36**	**P 4,131**	**P -**	**P 4,167**

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 3,609	P -	P 3,609
Government bonds		4,199	-	-	4,199
Other debt securities		824	-	-	824
Equity securities – quoted		136	-	-	136
		5,159	3,609	-	8,768
AFS securities – net:	9.2				
Government debt securities		141,566	-	-	141,566
Other debt securities		61,156	-	-	61,156
Equity securities – quoted		9,684	1	-	9,685
		212,406	1	-	212,407
		P 217,565	P 3,610	P -	P 221,175
Liabilities – Derivatives with negative fair values	18	P 30	P 2,550	P -	P 2,580

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 1,687**	**P -**	**P 1,687**
Government bonds		**3,679**	**-**	**-**	**3,679**
Other debt securities		**50**	**-**	**-**	**50**
		3,729	**1,687**	**-**	**5,416**
AFS securities – net:	9.2				
Government debt securities		**127,324**	**-**	**-**	**127,324**
Other debt securities		**59,266**	**-**	**-**	**59,266**
Equity securities – quoted		**4,116**	**185**	**-**	**4,301**
		190,706	**185**	**-**	**190,891**
		P 194,435	**P 1,872**	**P -**	**P 196,307**
Liabilities – Derivatives with negative fair values	18	**P 36**	**P 1,157**	**P -**	**P 1,193**

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 1,112	P -	P 1,112
Government bonds		3,983	-	-	3,983
Other debt securities		218	-	-	218
		4,201	1,112	-	5,313
AFS securities – net:	9.2				
Government debt securities		127,866	-	-	127,866
Other debt securities		55,881	-	-	55,881
Equity securities - quoted		6,179	1	-	6,180
		189,926	1	-	189,927
		P 194,127	P 1,113	P -	P 195,240
Liabilities –					
Derivatives with negative fair values	18	P 30	P 786	P -	P 816

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

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

(a) Equity securities

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

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

(b) Debt securities

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

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

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

(c) Derivatives

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

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

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

BDO Unibank Group

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

Parent Bank

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

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

(a) Due from BSP and Other Banks

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

(b) *AFS Securities*

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

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

(c) *Loans and Other Receivables*

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

(d) *Deposits and Borrowings*

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

(e) *Other Resources and Liabilities*

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

6.5 Fair Value Measurement for Non-financial Assets

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

BDO Unibank Group

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

BDO Unibank Group

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

Parent Bank

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

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

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

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

(a) *Fair Value Measurement for Land*

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

(b) *Fair Value Measurement for Buildings and Improvements*

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

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

6.6 Offsetting Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

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

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

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

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

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

The breakdown of this account as to currency follows:

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

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

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

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

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

9.1 Financial Assets at FVTPL

This account is composed of the following:

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

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

9.2 AFS Securities

AFS securities consist of the following:

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

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

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

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

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

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

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

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

Changes in AFS securities are presented below.

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

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

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

9.3 HTM Investments

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

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

9.4 Reclassification of Investment Securities

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

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

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

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

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

Non-performing loans included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2015 and 2014 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772, which amends regulations governing non-performing loans.

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

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

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

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

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

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

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

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

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

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

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

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

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

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

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

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

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

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

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

12. INVESTMENT PROPERTIES

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

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

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

	Land	Buildings	Total
January 1, 2014			
Cost	P 8,966	P 5,829	P 14,795
Accumulated depreciation	-	(2,048)	(2,048)
Allowance for impairment (see Note 14)	(2,287)	(79)	(2,366)
Net carrying amount	P 6,679	P 3,702	P 10,381

Parent Bank

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

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

	Land	Buildings	Total
BDO Unibank Group			
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**

	Land		Buildings		Total	
Balance at January 1, 2014, net of accumulated depreciation and impairment	P	6,679	P	3,702	P	10,381
Additions		1,370		1,178		2,548
Disposals	(	1,020)	(	151)	(	1,171)
Reclassifications		1,164		1,390		2,554
Depreciation for the year		-	(	451)	(	451)
Balance at December 31, 2014, net of accumulated depreciation and impairment	P	8,193	P	5,668	P	13,861

Parent Bank

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

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

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

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

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

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

13. OTHER RESOURCES

The components of this account are shown below.

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

13.1 *Equity Investments*

Equity investments consist of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	MNTC	**Generali**	**SM Keppel**	**Others**	**Total**
December 31, 2015 (Unaudited)					
Assets	**P 30,687**	**P 22,975**	**P 2,643**	**P 2,478**	**P 58,783**
Liabilities	**22,586**	**19,009**	**369**	**723**	**42,687**
Equity	**8,101**	**3,966**	**2,274**	**1,755**	**16,096**
Revenues	**8,708**	**7,183**	**177**	**825**	**16,893**
Net profit	**2,949**	**1,102**	**23**	**106**	**4,180**

		MNTC		Generali		SM Keppel		Others		Total
December 31, 2014 (Audited)										
Assets	P	28,715	P	19,220	P	2,493	P	2,051	P	52,479
Liabilities		21,087		15,487		241		367		37,182
Equity		7,628		3,733		2,252		1,684		15,297
Revenues		10,129		5,985		187		677		16,978
Net profit		2,565		851		16		100		3,532
December 31, 2013 (Audited)										
Assets	P	20,788	P	15,844	P	2,464	P	2,024	P	41,120
Liabilities		13,589		13,550		228		416		27,783
Equity		7,199		2,294		2,236		1,608		13,337
Revenues		7,640		5,129		267		618		13,654
Net profit		2,378		686		71		80		3,215

13.2 Deposits Under Escrow

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

13.3 Goodwill and Branch Licenses

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

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

13.4 Receivables from SPVs

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

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

13.5 Non-current Assets Held for sale

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

13.6 Others

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

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

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

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

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

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

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

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

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

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

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

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

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

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

The maturity profile of this account is presented below.

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

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

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

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

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

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

16. BILLS PAYABLE

This account is composed of the following borrowings from:

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

The breakdown of this account as to currency follows:

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

The maturity profile of this account is presented below.

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

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

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

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

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

16.1 Foreign Banks

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

16.2 Senior Notes

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

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

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

17. SUBORDINATED NOTES PAYABLE

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

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

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

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

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

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

18. OTHER LIABILITIES

Other liabilities consist of the following:

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

The liability for unredeemed reward points amounting to P2,488 and P2,803 as of December 31, 2015 and 2014, respectively, presented as part of Accrued expenses 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).

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

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

19. EQUITY

19.1 Capital Management and Regulatory Capital

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19.2 Capital Stock

Capital stock consists of the following:

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

19.2.1 Preferred Shares

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

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

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

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

19.2.2 Common Shares

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

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

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

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

19.3 BDO American Depositary Receipt Program

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

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

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

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

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

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

19.4 Termination of Global Depositary Receipts by Primebridge

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

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

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

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

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

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

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

19.5 Surplus Free

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

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

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

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

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

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

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

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

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

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

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

19.6 Surplus Reserves

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

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

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

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

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

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

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

19.7 Others

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

20. INTEREST INCOME

Interest income consists of the following:

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

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

21. INTEREST EXPENSE

Interest expense is composed of the following:

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

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

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

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

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

Other operating expenses consist of the following:

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

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

23. COMPENSATION AND BENEFITS

23.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

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

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

23.2 Post-employment Benefits

(a) *Characteristics of the Defined Benefit Plan*

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

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

(b) *Explanation of Amounts Presented in the Financial Statements*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

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

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

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

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

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

(iii) Asset-liability Matching Strategies

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

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

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

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

(iv) Funding Arrangements and Expected Contributions

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

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

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

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

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

24. RELATED PARTY TRANSACTIONS

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

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

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

Related Party Category	Notes	2015 Amount of Transaction	2015 Outstanding Balance	2014 Amount of Transaction	2014 Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**P 12,586**	**P 12,012**	P 28,534	P 12,046
Related Parties Under Common Ownership		**26,702**	**16,104**	76,924	34,310
Officers and Employees		**1,094**	**1,442**	1,021	1,413
Deposit Liabilities	24 (b)				
Stockholders		**339,476**	**61,034**	397,735	624
Related Parties Under Common Ownership		**498,553**	**15,513**	825,574	3,009
Officers and Employees		**3**	**3**	98	1
Other Transactions with Subsidiaries	24 (d)				
Loans and Advances		**45,119**	**6,980**	56,983	7,958
Derivative Assets		**99**	**10**	85	5
Derivative Liabilities		**574**	**6**	1,224	7
Deposit Liabilities		**198**	**3,002**	451	2,804
Dividend Income		**3,671**	**2,400**	1,934	-
Interest Income		**207**	**102**	198	68
Rent Income		**58**	**-**	57	-
Service Fees		**65**	**-**	66	-
Interest Expense		**11**	**-**	11	1
Rent Expense		**9**	**-**	8	-
Asset management fees				119	-
Other Transactions with Associates	24 (d)				
Dividend Income		**130**	**-**	428	148
Service Fees		**51**	**14**	42	12
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**699**	**78**	608	67
Key Management Personnel	24 (d)				
Compensation		**950**	**-**	861	-
Retirement Plan	24 (c)	**224**	**3,079**	272	4,175

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages:

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.0% to 3.5% per annum, 2.0% to 3.5% per annum and 2.0% to 3.0% per annum in 2015, 2014 and 2013, respectively, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2015 and 2014, BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Total DOSRI loans	**P 29,684**	P 47,852	**P 29,558**	P 47,769
Unsecured DOSRI loans	**1,148**	3,203	**1,145**	3,143
Past due DOSRI loans	**-**	1	**-**	1
Non-performing DOSRI loans	**-**	1	**-**	1
% of DOSRI loans to total loan portfolio	**2.3%**	4.4%	**2.4%**	4.5%
% of unsecured DOSRI loans to total DOSRI loans	**3.9%**	6.7%	**3.9%**	6.6%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.0% to 12.0 % in 2015, 2.2% to 12.0% in 2014 and 2.3% to 12.0% in 2013 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2015 amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively. Total loan releases and collections in 2014, on the other hand, amounted to P106,542 and P124,463 for BDO Unibank Group and P106,479 and P124,449 for the Parent Bank, respectively.

BDO Unibank Group and the Parent Bank assessed that these loans are not impaired in 2015 and 2014.

(b) Deposits from Related Parties

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P838,032 and P1,223,407 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 5.3% both in 2015 and in 2014. The related interest expense from deposits amounted to P1,672 and P906 in 2015 and 2014, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended December 31, 2015 and 2014 as follows:

	December 31, 2015			
	BDO Unibank Group		**Parent Bank**	
Transactions	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Loans to employees				
BDO Unibank, Inc.	P -	P 54	P -	P 54
BDO Leasing	-	1	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	3,011	-	3,011
Trading gain				
BDO Unibank, Inc.	219	-	219	-
Interest expense				
BDO Unibank, Inc.	5	-	5	-

	December 31, 2014			
	BDO Unibank Group		Parent Bank	
Transactions	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	P 130	P 71	P 130	P 71
BDO Leasing	-	2	-	-
BDO Capital	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	4,090	-	4,090
Trading gain				
BDO Unibank, Inc.	134	-	134	-
Interest expense				
BDO Unibank, Inc.	8	-	8	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P3,011 and P4,090 as of December 31, 2015 and 2014, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P5 in 2015 and P8 in 2014.

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 23.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown below. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the consolidated financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total loans and advances granted and collections amounted to P45,119 and P46,097, respectively, in 2015 and P56,983 and P58,918, respectively, in 2014. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P163 and P92 as of December 31, 2015 and 2014, respectively (see Note 10).

The Parent Bank also grants unsecured and interest-bearing loans to subsidiaries with outstanding balance of P6,715 and P7,798 as of December 31, 2015 and 2014, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). These loans are payable in cash with a term between one month to two years. Interest income recognized on these loans amounted to P207 in 2015, P198 in 2014 and P219 in 2013 and is presented as part of Interest Income in the Parent Bank's statements of income. Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2015, 2.0% to 3.5% per annum in 2014 and 2.0% to 3.0% per annum in 2013.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, credit card services, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank.

In 2015, 2014 and 2013, total service fees amounted to P65, P66 and P66, respectively, and are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 22). There are no outstanding balance arising from these transactions as of December 31, 2015 and 2014.

Certain subsidiaries lease office space from the Parent Bank. For the years ended December 31, 2015, 2014 and 2013, total rent collected from the subsidiaries amounted to P58, P57 and P53, respectively, and is included as part of Miscellaneous under Other Operating Income income in the Parent Bank's statements of income (see Note 22). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to P82, P119 and P120 in 2015, 2014 and 2013, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends declared by BDO Unibank Group's subsidiaries amounted to P3,671 , P1,934 and P364, respectively. These are presented as part of Dividends under Other Operating Income account in the Parent Bank statements of income (see Note 22). Out of the total dividends declared, the Parent Bank received P1,271, P1,934 and P364 in 2015, 2014 and 2013, respectively.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid for the years ended December 31, 2015, 2014 and 2013 amounted to P9, P8 and P8, respectively, and is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank's financial statements (see Note 22). The lease term is between ten to twenty years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2015 and 2014.

(4) Derivatives

In 2015 and 2014, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2015 and 2014, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative with negative fair values under Other Liabilities account in the statements of financial position.

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank amounted to P3,002 and P2,804 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 1.5% in 2015 and 0.0% to 2.5% in 2014. The related interest expense from deposits amounted to P11 both in 2015 and 2014.

(ii) Other transactions with associates are shown below.

(1) Loans and Advances to Associates

As of December 31, 2015 and 2014, outstanding unsecured and interest-bearing loans and advances to associates amounted to P1,225 and P1,233, respectively, in BDO Unibank Group financial statements (nil for the Parent Bank). The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between five to seven years. Total collections on loans and advances amounted to P13 and P16 in 2015 and 2014, respectively. BDO Unibank Group recognized P17, P92 and P91 interest income on these loans in 2015, 2014 and 2013, respectively. Annual interest rate on these loans ranges from 6.6% to 7.7% for the years 2015, 2014 and 2013. As of December 31, 2015 and 2014, there were no impairment losses recognized on these loans and advances.

(2) Income to the Parent Bank

Generali, an associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, Generali pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. For the years ended December 31, 2015, 2014 and 2013, total services fees amounted to P51, P42 and P35, respectively. Outstanding balances arising from this transaction amounted to P14 and P12 as of December 31, 2015 and 2014, respectively and is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P130, P428 and P216, respectively. These are presented as part of Dividend under Other Operating Income in the statements of income (see Note 22). Dividends receivable amounted to P148 as of December 31, 2014 (nil as of December 31, 2015). These are presented as part of Other Resources (see Note 13).

(iii) Transaction of the Parent Bank with related parties under common ownership:

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2015, 2014 and 2013, total rent paid to related parties amounted to P699, P608 and P529, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P78 and P67 as of December 31, 2015 and 2014, respectively and is included as part of Accounts payable under Other Liabilities (see Note 18).

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows (see Note 23.1):

	BDO Unibank Group		
	2015	2014	2013
Salaries and wages	**P 863**	P 786	P 679
Bonuses	**406**	377	334
Social security costs and other benefits	**83**	39	38
	P 1,352	P 1,202	P 1,051

	Parent Bank		
	2015	2014	2013
Salaries and wages	**P 605**	P 562	P 467
Bonuses	**287**	271	234
Social security costs and other benefits	**58**	28	27
	P 950	P 861	P 728

25. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not resources of the BDO Unibank Group (see Note 31.3).

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Investments	**P 910,720**	P 808,105	**P 663,127**	P 590,995
Others	**6,627**	9,342	**5,428**	6,542
	P 917,347	P 817,447	**P 668,555**	P 597,537

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

(a) Investment in government securities (shown as part of AFS securities) with a total face value of P9,667 and P9,106 as of December 31, 2015 and 2014, respectively, in BDO Unibank Group and P6,865 and P6,230 as of December 31, 2015 and 2014, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2015 and 2014, the additional reserve for trust functions amounted to P215 and P192, respectively, for BDO Unibank Group and P171 and P156, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P2,909, P2,624 and P2,473 for the years ended December 31, 2015, 2014 and 2013, respectively, in BDO Unibank Group statements of income and P2,322, P2,180, and P2,116 for the years ended December 31, 2015, 2014 and 2013, respectively, in the Parent Bank statements of income (see Note 22).

26. MERGERS AND ACQUISITIONS

26.1 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax (DST) amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

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

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources *(carried forward)*	P	28,196

Total resources *(brought forward)*	P	28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity		14
Cost of investment		6,687
Goodwill (see Note 13)	P	2,903

26.2 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by its wholly owned subsidiary, BDO Capital, in CBN Grupo by way of a subscription of 3,273,000 CBN Grupo shares for a total subscription amount of €3. Upon completion of the proposed investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The transaction is still subject to the necessary regulatory approvals as of December 31, 2015.

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

On July 22, 2015, the shareholders of BDO Capital, BDO Elite and BDO Savings approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 98.82% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The merger will involve the issuance of shares by BDO Capital to the Parent Bank and other shareholders of the companies to be absorbed. The exchange ratio is determined at (a) 0.14102 BDO Capital share for every BDO Elite share held, and (b) 0.04313 BDO Capital share for every BDO Savings share held, based on the audited financial statements of the companies as of June 30, 2015.

The transaction is still subject to the necessary regulatory approvals.

26.4 Acquisition of Generali

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of Generali Pilipinas Holding Company, Inc. (GPHC), which owns Generali Pilipinas Life Assurance Company (GPLAC), a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHC. Currently, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of GPHC. Upon closing of the transaction, BDO Unibank Group will acquire 60% of the issued and outstanding capital stock of GPHC from the Generali Group.

On the other hand, the Generali Group will acquire 100% of the issued and outstanding capital stock of GPIC from GPHC. As of December 31, 2015, the transaction has not been closed and is still pending regulatory approvals from the BSP and the Insurance Commission.

26.5 Acquisition of BDO Savings

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.99% of the outstanding capital stock of CSI for P878 subject to necessary regulatory approval. The BSP approved the transaction on February 20, 2014. The acquisition resulted in the recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively. Subsequent to the acquisition, the Parent Bank changed the name of CSI to BDO Savings. Subsequently, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.7). The breakdown of the acquisition-date fair value of the assets and liabilities of BDO Savings, including the cost of investments follows:

Cash and cash equivalents	P	5,756
Trading and investment securities		1,012
Loans and other receivables		11
Bank premises, furniture, fixtures and equipment		48
Other resources		16
Total resources		6,843
Deposit liabilities		5,748
Other liabilities		199
Total liabilities		5,947
Net asset position		896
Cost of investment*		878
Gain from acquisition	P	18

** The value of the 20 branch licenses as a consequence of this acquisition totaling P380 were separately identified and valued by the Parent Bank and previous shareholders, hence, did not form part of the cost of investment (see Note 13).*

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

On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. [TRB] executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Bank recognized the fair value of assets and liabilities of TRB as presented below.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		10
Total resources		2,491
Deposit liabilities		6,922
Bills payable		11
Other liabilities		185
Total liabilities		7,118
Net liability position	P	4,627

As settlement on the net liability position assumed by the Parent Bank, the majority shareholder/s of TRB will shoulder the P2,000 deficiency, through a term loan covered by acceptable hard assets, while the remaining deficiency is recognized by the Parent Bank as part of Branch licenses as granted by the BSP (see Note 13). In 2015, the P2,000 deficiency was settled through issuance of term loan under contract-to-sell financing and is presented as part of Loans and discounts under Loans and Other Receivables account in the 2015 statement of financial position (see Note 10).

26.7 Acquisition of Assets and Assumption of Liabilities from BDO Savings

On April 3, 2014, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.5). The BSP approved the transaction on August 1, 2014.

The Parent Bank recognized the assets and liabilities of BDO Savings as follows:

Cash and other cash items	P	4,778
Loans and other receivables		3
Premises, furniture, fixtures and equipment		35
Other resources		18
Total resources *(carried forward)*	P	4,834

Total resources *(brought forward)*	P 4,834
Deposit liabilities	4,765
Other liabilities	69
Total liabilities	4,834
Net liability position	P -

26.8 Acquisition of Trust Business

On February 21, 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 31.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13).

27. TAXES

27.1 Current and Deferred Taxes

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

	BDO Unibank Group		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 3,510**	P 3,401	P 480
Minimum corporate income tax (MCIT) at 2%	**665**	369	583
Final taxes at 20%, 15%, 10% and 7.5%	**1,305**	1,084	788
	5,480	4,854	1,851
Deferred tax expense (income) relating to origination and reversal of temporary differences	**221**	(74)	253
	5,701	4,780	2,104
Application of previously unrecognized MCIT	**-**	(540)	-
	P 5,701	P 4,240	P 2,104
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 100)**	(P 22)	P 32
Movements in fair value of AFS securities	**(67)**	4	(21)
Movements in revaluation increment	**(8)**	-	(41)
	(P 175)	(P 18)	(P 30)

	Parent Bank		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 3,510**	P 3,202	P 65
Final taxes at 20%, 15%, 10% and 7.5%	**1,086**	933	636
MCIT at 2%	**-**	-	474
	4,596	4,135	1,175
Deferred tax expense (income) relating to origination and reversal of temporary differences	**233**	(73)	243
	4,829	4,062	1,418
Application of previously unrecognized MCIT	**-**	(540)	-
Tax expense reported in the statements of income	**P 4,829**	P 3,522	P 1,418
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 80)**	(P 26)	P 19
Movements in revaluation increment	**(8)**	-	(38)
	(P 88)	(P 26)	(P 19)

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

	BDO Unibank Group		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,227**	P 8,120	P 7,425
Adjustment for income subjected to lower income tax rates	**(657)**	(430)	(266)
Tax effects of:			
Income exempt from tax	**(3,076)**	(3,446)	(5,902)
Non-deductible expenses	**891**	791	1,448
Deductible temporary differences not recognized	**(713)**	(266)	(1,435)
NOLCO not recognized	**(9)**	6	563
Utilization of previously unrecognized net operating loss carryover (NOLCO)	**-**	(501)	-
Application of previously unrecognized MCIT	**-**	(540)	-
Others	**38**	506	271
Tax expense reported in profit or loss	**P 5,701**	P 4,240	P 2,104

	Parent Bank		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,404**	P 7,896	P 6,575
Adjustment for income subjected to lower income tax rates	**(431)**	(359)	(244)
Tax effects of:			
Income exempt from tax	**(4,111)**	(3,340)	(5,628)
Deductible temporary differences not recognized	**(773)**	(283)	(1,435)
Non-deductible expenses	**740**	630	1,194
Application of previously unrecognized MCIT	**-**	(540)	-
Utilization of previously unrecognized NOLCO	**-**	(482)	-
NOLCO not recognized	**-**	-	482
Others	**-**	-	474
Tax expense reported in profit or loss	**P 4,829**	P 3,522	P 1,418

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

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Deferred tax assets:				
Allowance for impairment	**P 6,117**	P 5,924	**P 5,823**	P 5,823
Unamortized past service costs	**1,445**	1,608	**1,409**	1,556
Lease income differential	**106**	99	**106**	99
NOLCO	**17**	31	**-**	-
Others	**44**	2	**-**	-
	7,729	7,664	**7,338**	7,478
Deferred tax liabilities:				
Retirement asset	**776**	723	**784**	768
Revaluation increment	**432**	438	**431**	439
Lease income differential	**85**	121	**-**	-
Changes in fair values of AFS securities	**74**	76	**-**	-
Capitalized interest	**56**	58	**55**	58
Others	**227**	215	**-**	-
	1,650	1,631	**1,270**	1,265
Net deferred tax assets	**P 6,079**	P 6,033	**P 6,068**	P 6,213

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

	Statements of Income		
	2015	2014	2013
BDO Unibank Group			
Unamortized past service costs	**P 163**	(P 310)	P 62
Retirement asset	**116**	500	119
Lease income differential	**(42)**	(38)	(4)
NOLCO	**14**	4	(28)
Capitalized interest	**(2)**	(3)	8
Allowance for impairment	**-**	(300)	73
Others	**(28)**	73	23
Deferred tax expense (income)	**P 221**	(P 74)	P 253

	Statements of Income		
	2015	2014	2013
Parent Bank			
Retirement asset	**P 96**	P 556	P 130
Unamortized past service costs	**147**	(307)	55
Lease income differential	**(7)**	(9)	(5)
Capitalized interest	**(3)**	(3)	8
Allowance for impairment	**-**	(310)	55
Deferred tax expense (income)	**P 233**	(P 73)	P 243

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Movements in actuarial losses	**(P 100)**	(P 22)	**(P 80)**	(P 26)
Movements in fair value of AFS securities	**(67)**	4	**-**	-
Movements in revaluation increment	**(8)**	-	**(8)**	-
Deferred tax income	**(P 175)**	(P 18)	**(P 88)**	(P 26)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2015	P 1	P 12	2018
2014	1087	12	2017
2013	161	20	2016
	P 1,249	P 44	

In 2015, NOLCO and MCIT amounting to P1 and P24, respectively, expired for BDO Unibank Group (nil for Parent Bank).

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2015 and 2014 are as follows:

	BDO Unibank Group			
	2015		2014	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 16,089**	**P 4,827**	P 18,538	P 5,561
NOLCO	**1,249**	**375**	930	279
MCIT	**44**	**44**	18	18
Others	**1,947**	**584**	812	244
	P 19,329	**P 5,830**	P 20,298	P 6,102

	Parent Bank			
	2015		2014	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 18,140**	**P 5,442**	P 20,588	P 6,176
Others	**1,947**	**584**	699	210
	P 20,087	**P 6,026**	P 21,287	P 6,386

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

27.2 Gross Receipts Tax

On January 29, 2004, Republic Act (RA) No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

27.3 Documentary Stamp Tax

DST (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 17, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 75 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the 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.

27.4 Supplementary Information Required by the Bureau of Internal Revenue

The BIR issued Revenue Regulations (RR) 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

28. EARNINGS PER SHARE

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

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 25,016**	P 22,805	P 22,608
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**24,677**	22,466	22,268
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 6.84**	P 6.27	P 6.22

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

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 24,677***	P 22,466*	P 22,608
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of preferred shares	*****	*	75
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 6.84**	P 6.27	P 6.18

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in the secondary market and no additional issuance is expected to be made.*

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

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,519**	P 22,797	P 20,499
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**26,180**	22,458	20,159
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 7.25**	P 6.27	P 5.63

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

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,180***	P 22,458*	P 20,499
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of convertible preferred shares	*****	*	75
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 7.25**	P 6.27	P 5.61

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in market and no additional issuance is expected to be made.*

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2015	2014	2013
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**13.4%**	13.4%	14.0%
Return on average resources:			
Net profit / Average total resources	**1.3%**	1.3%	1.6%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.3%
Return on common equity:			
Net profit / Average common equity	**13.6%**	13.6%	14.3%
Liquidity ratio:			
Total liquid resources / Total resources	**33.8%**	38.1%	43.0%
Debt to equity:			
Total liabilities / Total equity	**917.6%**	937.3%	917.8%
Resources to equity:			
Total resources / Total equity	**1,017.6%**	1,037.3%	1,017.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**302.8%**	319.0%	284.2%
Profit margin:			
Net profit / Revenues	**24.1%**	24.5%	25.6%

	2015	2014	2013
BDO Unibank Group			
Capital to risk resources ratio*:			
Combined credit, market and operational risks	**13.3%**	14.4%	15.5%

* *Computed using balances prepared under PFRS*

	2015	2014	2013
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**15.1%**	14.3%	13.5%
Return on average resources:			
Net profit / Average total resources	**1.4%**	1.4%	1.5%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.3%
Return on common equity:			
Net profit / Average common equity	**15.3%**	14.5%	13.8%
Liquidity ratio:			
Total liquid resources / Total resources	**32.7%**	37.4%	41.7%
Debt to equity:			
Total liabilities / Total equity	**912.1%**	964.0%	950.6%
Resources to equity:			
Total resources / Total equity	**1,012.1%**	1,064.0%	1,050.6%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**320.2%**	324.4%	268.4%
Profit margin:			
Net profit / Revenues	**26.9%**	25.9%	25.2%

	2015	2014	2013
Parent Bank			
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**12.2%**	13.1%	13.3%

* *Computed using balances prepared under PFRS*

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

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Aggregate amount of secured liabilities	**P 1,682**	P 23,977	**P 577**	P 22,853
Aggregate amount of resources pledged as security	**P 6,723**	P 32,482	**P 2,906**	P 29,695

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

30.1 Dividends

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends were paid on February 16, 2016.

30.2 Joint Venture Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in a Joint Venture Investment Agreement (Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2015, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

31.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (TRO) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

On November 27, 2012, the Petitioning Banks filed a Manifestation With Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated November 27, 2012 ("Manifestation/Reiterative Motion"), praying that the Supreme Court issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to Petitioners to enable them to comply with the Honorable Court's "condition that the 20% final withholding tax on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On February 7, 2013, the Petitioners received Respondents' Motion asking for a period of thirty (30) days from February 4, 2013, or until March 6, 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated February 12, 2013, the Supreme Court granted Respondents' Motion. On April 17, 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated April 11, 2013. On June 5, 2013, the Petitioners filed a Reply to said Comment. By Resolutions dated June 10, 2013 and July 9, 2013, respectively, the Supreme Court admitted the Petitioners-Intervenors RCBC and RCBC Capital's Reply and Petitioners' Reply.

On January 13, 2015, the Supreme Court En Banc promulgated its Decision nullifying BIR Ruling Nos. 370-2011 and DA 378-2011, and ordering the Bureau of Treasury to immediately release and pay to the bondholders the amount corresponding to the 20% final withholding tax that it withheld on October 18, 2011.

On March 16, 2015, Intervenors RCBC and RCBC Capital Corporation filed their Motion for Clarification and/or Partial Reconsideration. On April 13, 2015, the Respondents filed their Motion for Reconsideration and Clarification.

On April 21, 2015, the Supreme Court en banc issued a Resolution requiring the Petitioners to file a Comment on the Motions filed by the Intervenors and the Respondents.

On July 6, 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and Intervenors' Motion for Clarification and/or Partial Reconsideration (Petitioners' Consolidated Comment).

On July 28, 2015, the Supreme Court en banc issued a Resolution noting the Petitioner's Consolidated Comment, noting the Intervenors' Comment on the Respondents' Motion for Reconsideration and Clarification (Intervenors' Comment), and requiring the Office of the Solicitor General (OSG), on behalf of the Respondents, to file a Reply to the Petitioners' Consolidated Comment and Intervenors' Comment (Respondents' Reply) within ten days from receipt of Notice of Resolution.

On October 29, 2015, Petitioners received the Respondents' Reply dated October 19, 2015 and filed an Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated October 22, 2015 which is still pending before the Supreme Court En Banc. As of January 19, 2016, Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated March 13, 2015, and RCBC and RCAP's Motion for Clarification and/or Partial Reconsideration dated March 16, 2015. Likewise, petitioners are still awaiting the Supreme Court's Resolution on our Urgent Reiterative Motion.

BDO Unibank continues to believe that petitioning banks have a strong case, and the 20% FWT amounting to P690 under Accounts receivable account presented under Loans and Other Receivables in the statements of financial position is recoverable (see Note 10).

31.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, nineteen banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. BDO Unibank, Inc. and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 29, 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief, and a Supplemental Motion for Reconsideration on July 7, 2015.

On August 5, 2015, the Petitioners filed their Comment on the BIR's Supplemental Motion for Reconsideration. The Petitioners also filed their Consolidated Reply to the Consolidated Comments of Respondents BIR and Department of Finance. To date, RTC Makati has not yet resolved Respondent BIR's Supplemental Motion for Reconsideration, dated June 20, 2015, which seeks the reconsideration of RTC Makati's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of September 7, 2015, RTC Makati issued an Order allowing Development Bank of the Philippines (DBP) and United Overseas Bank of the Philippines (UOBP) to intervene in the case. As of January 19, 2015, RTC Makati has not yet resolved UOBP's application for the issuance of a Writ of Preliminary Injunction.

On October 19, 2015, Land Bank of the Philippines (LBP) filed a Motion for Leave to Admit LBP's Petition-in-Intervention. As of January 19, 2016, RTC Makati has not yet resolved LBP's Motion to Intervene.

On November 10, 2015, RTC Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

31.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2015, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P2,569, P2,199 and P1,971 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P2,415, P2,131 and P1,875 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 22).

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

	BDO Unibank Group		Parent Bank	
Within one year	P	2,315	P	2,176
More than one year but not more than five years		11,337		10,769
More than five years		4,259		4,153
	P	**17,911**	**P**	**17,098**

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2015 and 2014, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

		BDO Unibank Group		**Parent Bank**	
	Note	**2015**	2014	**2015**	2014
Trust department accounts	25	**P 917,347**	P 817,447	**P 668,555**	P 597,537
Committed credit lines		**132,385**	121,794	**132,192**	121,575
Forward exchange sold		**104,736**	140,322	**83,717**	120,045
Forward exchange bought		**94,826**	121,434	**70,788**	98,584
Unused commercial letters of credit		**41,888**	54,109	**41,876**	54,109
Outstanding guarantees issued		**18,916**	3,446	**18,903**	3,446
Interest rate swap receivable		**16,554**	8,756	**9,528**	5,900
Interest rate swap payable		**16,554**	8,756	**9,528**	5,900
ROP warrants		**15,021**	15,021	**15,021**	15,021
Spot exchange sold		**6,738**	7,111	**6,588**	7,105
Bills for collection		**5,213**	6,978	**5,213**	6,978
Spot exchange bought		**3,000**	2,522	**2,849**	2,516
Export letters of credit confirmed		**2,577**	240	**2,577**	240
Late deposits/payments received		**2,404**	3,318	**2,372**	3,318
Other contingent accounts		**2,194**	1,138	**2,138**	1,138

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The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
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We have audited the accompanying financial statements of BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as the BDO Unibank Group) and BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2014 and 2013, 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, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

As discussed in Note 27 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2014 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under Philippine Securities and Exchange Commission rules and regulations covering form and content of financial statements under Securities Regulation Code 68.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4748317, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until March 31, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 26, 2015

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group		Parent Bank	
	Notes	**2014**	2013	**2014**	2013
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 41,342**	P 27,824	**P 41,237**	P 27,736
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**269,542**	408,383	**258,416**	384,361
DUE FROM OTHER BANKS	8	**45,621**	26,939	**43,165**	24,655
TRADING AND INVESTMENT SECURITIES	9	**221,510**	227,910	**195,449**	207,747
LOANS AND OTHER RECEIVABLES - Net	10	**1,212,930**	922,553	**1,182,184**	907,393
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**21,093**	17,908	**18,917**	16,325
INVESTMENT PROPERTIES - Net	12	**13,861**	10,381	**10,858**	7,518
OTHER RESOURCES - Net	13	**37,750**	30,880	**42,847**	39,046
TOTAL RESOURCES		**P 1,863,649**	P 1,672,778	**P 1,793,073**	P 1,614,781
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 1,492,282**	P 1,345,333	**P 1,464,089**	P 1,317,132
BILLS PAYABLE	16	**100,361**	94,243	**85,069**	82,827
SUBORDINATED NOTES PAYABLE	17	**10,030**	3,007	**10,030**	3,007
OTHER LIABILITIES	18	**81,307**	65,841	**65,358**	58,107
Total Liabilities		**1,683,980**	1,508,424	**1,624,546**	1,461,073
EQUITY	19				
Attributable to:					
Shareholders of the Parent Bank		**179,036**	163,711	**168,527**	153,708
Non-controlling Interests		**633**	643	**-**	-
		179,669	164,354	**168,527**	153,708
TOTAL LIABILITIES AND EQUITY		**P 1,863,649**	P 1,672,778	**P 1,793,073**	P 1,614,781

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos Except Per Share Data)

		BDO Unibank Group			Parent Bank		
	Notes	**2014**	2013	2012	**2014**	2013	2012
INTEREST INCOME	20	**P 63,583**	P 56,606	P 54,014	**P 60,871**	P 54,431	P 51,657
INTEREST EXPENSE	21	**12,358**	13,440	17,893	**11,728**	13,014	17,245
NET INTEREST INCOME		**51,225**	43,166	36,121	**49,143**	41,417	34,412
IMPAIRMENT LOSSES - Net	14	**5,114**	7,001	4,941	**5,014**	6,216	4,850
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**46,111**	36,165	31,180	**44,129**	35,201	29,562
OTHER OPERATING INCOME	22	**29,487**	31,844	24,427	**27,026**	27,080	21,703
OTHER OPERATING EXPENSES	22	**48,530**	43,259	39,494	**44,836**	40,364	37,104
PROFIT BEFORE TAX		**27,068**	24,750	16,113	**26,319**	21,917	14,161
TAX EXPENSE	27	**4,240**	2,104	1,571	**3,522**	1,418	1,117
NET PROFIT		**P 22,828**	P 22,646	P 14,542	**P 22,797**	P 20,499	P 13,044
Attributable To:							
Shareholders of the Parent Bank		**P 22,805**	P 22,608	P 14,483			
Non-controlling Interests		**23**	38	59			
		P 22,828	P 22,646	P 14,542			
Earnings Per Share:	28						
Basic		**P 6.27**	P 6.22	P 4.52	**P 6.27**	P 5.63	P 4.06
Diluted		**P 6.27**	P 6.18	P 4.52	**P 6.27**	P 5.61	P 4.06

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012
NET PROFIT		**P 22,828**	P 22,646	P 14,542	**P 22,797**	P 20,499	P 13,044
OTHER COMPREHENSIVE INCOME							
Items that will be reclassified subsequently to profit or loss:							
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	**(2,440)**	(12,410)	2,813	**(2,846)**	(12,334)	2,774
Transfer of realized gains on AFS securities to statements of income, net of tax		**2,801**	7,378	471	**2,796**	7,388	468
Net gains (losses) on AFS securities, net of tax		**361**	(5,032)	3,284	**(50)**	(4,946)	3,242
Translation adjustment related to foreign operations		**76**	281	(62)	**(6)**	357	(32)
		437	(4,751)	3,222	**(56)**	(4,589)	3,210
Items that will not be reclassified to profit or loss:							
Actuarial gains (losses) on remeasurement of retirement benefit asset, net of tax	23	**(47)**	74	81	**(63)**	46	77
Reversal of revaluation increment		**-**	(89)	-	**-**	(89)	-
		(47)	(15)	81	**(63)**	(43)	77
Total Other Comprehensive Income (Loss), Net of Tax		**390**	(4,766)	3,303	**(119)**	(4,632)	3,287
TOTAL COMPREHENSIVE INCOME		**P 23,218**	P 17,880	P 17,845	**P 22,678**	P 15,867	P 16,331
Attributable To:							
Shareholders of the Parent Bank		**P 23,184**	P 17,845	P 17,783			
Non-controlling Interests		**34**	35	62			
		P 23,218	P 17,880	P 17,845			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Accumulated Translation Adjustment	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
		BDO Unibank Group												
BALANCE AT JANUARY 1, 2014		P 35,808	P 5,150	P 63,908	P 2,994	P 12	P 55,756	P 2,609	(P 3,407)	P 1,027	(P 146)	P 163,711	P 643	P 164,354
Transaction with owners														
Cash dividends	19	-	-	-	-	-	(7,859)	-	-	-	-	(7,859)	(44)	(7,903)
Total comprehensive income (loss)		-	-	-	-	-	22,805	356	(47)	-	70	23,184	34	23,218
Transfer to (from) Surplus Free														
Appropriations during the year	19	-	-	-	268	-	(268)	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	192	-	(192)	-	-	-	-	-	-	-
		-	-	-	460	-	(460)	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		**P 35,808**	**P 5,150**	**P 63,908**	**P 3,454**	**P 12**	**P 70,242**	**P 2,965**	**(P 3,454)**	**P 1,027**	**(P 76)**	**P 179,036**	**P 633**	**P 179,669**
BALANCE AT JANUARY 1, 2013		P 35,808	P 5,150	P 63,908	P 2,254	P -	P 41,748	P 7,641	(P 3,484)	P 1,116	(P 427)	P 153,714	P 657	P 154,371
Transaction with owners														
Cash dividends	19	-	-	-	-	-	(7,860)	-	-	-	-	(7,860)	(44)	(7,904)
Total comprehensive income (loss)		-	-	-	-	-	22,608	(5,032)	77	(89)	281	17,845	35	17,880
Transfer to (from) Surplus Free														
Appropriation during the year	19	-	-	-	550		(550)	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	190	-	(190)	-	-	-	-	-	-	-
		-	-	-	740	-	(740)	-	-	-	-	-	-	-
Other Adjustments														
Increase of ownership interst in a subsidiary		-	-	-	-	12	-	-	-	-	-	12	(47)	(35)
Consolidation of new subsidiary		-	-	-	-	-	-	-	-	-	-	-	42	42
		-	-	-	-	12	-	-	-	-	-	12	(5)	7
BALANCE AT DECEMBER 31, 2013		P 35,808	P 5,150	P 63,908	P 2,994	P 12	P 55,756	P 2,609	(P 3,407)	P 1,027	(P 146)	P 163,711	P 643	P 164,354
BALANCE AT JANUARY 1, 2012		P 26,074	P 5,000	P 25,175	P 1,696	P -	P 33,674	P 4,360	(P 3,565)	P 1,118	(P 365)	P 93,167	P 633	P 93,800
Transaction with owners														
Stock rights issuance	19	8,952	-	34,147	-	-	-	-	-	-	-	43,099	-	43,099
Cash dividends	19	-	-	-	-	-	(330)	-	-	-	-	(330)	(38)	(368)
Stock dividends	19	782	150	4,586	-	-	(5,524)	-	-	-	-	(6)	-	(6)
Total transaction with owners		9,734	150	38,733	-	-	(5,854)	-	-	-	-	42,763	(38)	42,725
Total comprehensive income (loss)		-	-	-	-	-	14,483	3,281	81	-	(62)	17,783	62	P 17,845
Transfer to (from) Surplus Free														
Appropriations during the year	19	-	-	-	415	-	(415)	-	-	-	-	-	-	-
Trust reserve	19, 25	-	-	-	143	-	(143)	-	-	-	-	-	-	-
Revaluation increment on land written-off		-	-	-	-	-	3	-	-	(2)	-	1	-	1
		-	-	-	558	-	(555)	-	-	(2)	-	1	-	1
BALANCE AT DECEMBER 31, 2012		P 35,808	P 5,150	P 63,908	P 2,254	P -	P 41,748	P 7,641	(P 3,484)	P 1,116	(P 427)	P 153,714	P 657	P 154,371

See Notes to Financial Statements.

Parent Bank

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Revaluation Increment	Accumulated Translation Adjustment	Total Equity
BALANCE AT JANUARY 1, 2014		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	P 153,708
Transactions with owners											
Cash dividends	19	-	-	-	-	(7,859)	-	-	-	-	(7,859)
Total comprehensive income (loss)		-	-	-	-	22,797	(50)	(63)	-	(6)	22,678
Transfer to (from) Surplus Free											
Appropriation during the year	19	-	-	-	101	(101)	-	-	-	-	-
Trust reserve	19, 25	-	-	-	156	(156)	-	-	-	-	-
		-	-	-	257	(257)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		**P 35,808**	**P 5,150**	**P 63,889**	**P 1,832**	**P 61,716**	**P 2,411**	**(P 3,305)**	**P 1,024**	**P 2**	**P 168,527**
BALANCE AT JANUARY 1, 2013		P 35,808	P 5,150	P 63,889	P 1,414	P 34,557	P 7,40[illegible]	(P 3,288)	P 1,113	(P 349)	P 145,701
Transactions with owners											
Cash dividends	19	-	-	-	-	(7,860)	-	-	-	-	(7,860)
Total comprehensive income (loss)		-	-	-	-	20,499	(4,946)	46	(89)	357	15,867
Transfer to (from) Surplus Free											
Trust reserve	19, 25	-	-	-	161	(161)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2013		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	P 153,708
BALANCE AT JANUARY 1, 2012		P 26,074	P 5,000	P 25,156	P 1,295	P 27,483	P 4,165	(P 3,365)	P 1,115	(P 317)	P 86,606
Transactions with owners											
Stock rights issuance	19	8,952	-	34,147	-	-	-	P -	-	-	43,099
Cash dividends	19	-	-	-	-	(330)	-	-	-	-	(330)
Stock dividends	19	782	150	4,586	-	(5,524)	-	-	-	-	(6)
Total transaction with owners		9,734	150	38,733	-	(5,854)	-	-	-	-	42,763
Total comprehensive income (loss)		-	-	-	-	13,044	3,242	77	-	(32)	16,331
Transfer to (from) Surplus Free											
Trust reserve	19, 25	-	-	-	119	(119)	-	-	-	-	-
Revaluation increment on land written-off		-	-	-	-	3	-	-	(2)	-	1
		-	-	-	119	(116)	-	-	(2)	-	1
BALANCE AT DECEMBER 31, 2012		P 35,808	P 5,150	P 63,889	P 1,414	P 34,557	P 7,407	(P 3,288)	P 1,113	(P 349)	P 145,701

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 27,068	P 24,750	P 16,113	P 26,319	P 21,917	P 14,161
Adjustments for:							
Interest income	20	(63,583)	(56,606)	(54,014)	(60,871)	(54,431)	(51,657)
Interest received		62,529	56,737	53,495	60,122	54,596	51,153
Interest paid		(12,496)	(13,777)	(17,625)	(11,855)	(13,533)	(16,953)
Interest expense	21	12,358	13,440	17,893	11,728	13,014	17,245
Impairment losses	14	5,114	7,001	4,941	5,014	6,216	4,850
Depreciation and amortization	11, 12, 13	3,262	2,760	3,059	2,640	2,355	2,798
Share in net profit of associates	13	(652)	(606)	(470)	-	-	-
Fair value loss (gain)	9	(37)	(440)	(178)	(65)	17	(269)
Income from acquisition of a subsidiary	26	(18)	(43)	-	-	-	-
Operating profit before changes in operating resources and liabilities		33,545	33,216	23,214	33,032	30,151	21,328
Decrease (increase) in financial assets at fair value through profit or loss		1,076	22	(4,134)	(1,327)	1,138	(2,385)
Increase in loans and other receivables		(216,173)	(160,507)	(95,250)	(200,655)	(158,432)	(97,006)
Decrease (increase) in investment properties		(1,377)	(885)	1,188	(1,389)	1,597	1,130
Increase in other resources		(12,164)	(5,293)	(5,963)	(9,078)	(5,549)	(5,852)
Increase in deposit liabilities		147,105	413,734	72,945	147,110	397,695	80,874
Increase in other liabilities		18,543	12,075	11,763	9,907	9,557	11,919
Cash generated from (used in) operations		(29,445)	292,362	3,763	(22,400)	276,157	10,008
Cash paid for income tax		(4,160)	(2,168)	(1,346)	(3,589)	(1,204)	(630)
Net Cash From (Used in) Operating Activities		(33,605)	290,194	2,417	(25,989)	274,953	9,378
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from disposals of available-for-sale securities		383,247	612,048	391,344	373,079	594,111	387,278
Acqusitions of available-for-sale securities	9	(377,961)	(606,540)	(428,794)	(360,013)	(589,025)	(424,254)
Acquisitions of premises, furniture, fixtures and equipment	11	(5,970)	(4,321)	(2,975)	(4,712)	(3,143)	(2,571)
Proceeds from disposals of premises, furniture, fixtures and equipment		194	73	32	87	62	22
Acquisitions of held-to-maturity investments	9	-	(3,586)	(24,411)	-	(3,586)	(24,410)
Maturities and disposals of held-to-maturity investments		-	2,899	21,094	-	2,705	20,565
Net Cash From (Used in) Investing Activities		(490)	573	(43,710)	8,441	1,124	(43,370)
CASH FLOWS FROM FINANCING ACTIVITIES							
Dividends paid	19	(7,903)	(7,904)	(368)	(7,859)	(7,860)	(330)
Proceeds from (redemption of) subordinated notes payable	17	7,023	(25,000)	(10,000)	7,023	(25,000)	(10,000)
Net proceeds from (payments of) bills payable		6,100	21,974	(237)	2,216	17,639	871
Net proceeds from issuance of stock rights		-	-	43,099	-	-	43,099
Proceeds from issuance of senior notes payable	16	-	-	12,790	-	-	12,790
Transaction costs paid from issuance of stock dividends		-	-	(6)	-	-	(6)
Net Cash From (Used in) Financing Activities		5,220	(10,930)	45,278	1,380	(15,221)	46,424
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		(P 28,875)	P 279,837	P 3,985	(P 16,168)	P 260,856	P 12,432

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012 (As Restated – see Note 2)	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012 (As Restated – see Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		**(P 28,875)**	P 279,837	P 3,985	**(P 16,168)**	P 260,856	P 12,432
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**27,824**	21,539	33,129	**27,736**	21,512	33,102
Due from Bangko Sentral ng Pilipinas	7	**408,383**	156,591	124,894	**384,361**	151,303	115,992
Due from other banks	8	**26,939**	12,645	24,719	**24,655**	11,488	22,777
Securities purchased under reverse repurchase agreement	10	**8,407**	941	4,989	**8,407**	-	-
		471,553	191,716	187,731	**445,159**	184,303	171,871
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**41,342**	27,824	21,539	**41,237**	27,736	21,512
Due from Bangko Sentral ng Pilipinas	7	**269,542**	408,383	156,591	**258,416**	384,361	151,303
Due from other banks	8	**45,621**	26,939	12,645	**43,165**	24,655	11,488
Securities purchased under reverse repurchase agreement	10	**86,173**	8,407	941	**86,173**	8,407	-
		P 442,678	P 471,553	P 191,716	**P 428,991**	P 445,159	P 184,303

Supplemental Information on Non-cash Financing and Investing Activities

The following are the significant noncash transactions:

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

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

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

d. On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company primarily engaged in the leasing business, amounting to P43 (see Note 26). As of the date of the acquisition, total resources and liabilities of Averon Holdings Corporation amounted to P1,484 and P1,397, respectively. Gain from acquisition amounted to P43.

e. On July 24, 2012, the Parent Bank acquired Rural Bank of San Juan, Inc.'s assets amounting to P695 and assumed the liabilities amounting to P1,320 which resulted in the recognition of branch licenses of P481 and goodwill of P144 (see Note 13.5).

f. On March 22, 2012, the Parent Bank declared 3% stock dividends on its outstanding common and preferred shares, equivalent to 78,218,589 common shares at P68.70 per share and 15,000,000 preferred shares at par. The declaration resulted in the recognition of additional paid-in capital of P4,586, net of issue costs (see Note 19.6). The dividends were distributed on June 8, 2012.

Other Information

Securities purchased under reverse repurchased agreement are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Loans and Other Receivables in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTER

1.1 Incorporation and Operations

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

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2014, the Parent Bank had 876 branches (including one foreign branch), 1,414 on-site and 1,177 off-site automated teller machines and 61 cash accept machines. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. These foreign operations accounted for 1.3%, 0.8% and 0.9% of BDO Unibank Group's total revenues in 2014, 2013 and 2012, respectively, and 1.1% and 0.5% of BDO Unibank Group's total resources as of December 31, 2014 and 2013, 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, 2014 (including the comparative financial statements for December 31, 2013 and 2012) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 26, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

In 2013 and 2012, the BDO Unibank Group and the Parent Bank prepared its financial statements in compliance with financial reporting standards in the Philippines (FRSP) for banks which is in accordance with PFRS, except for the reclassification of the credit-linked notes (CLNs) that are linked to Republic of the Philippines (ROP) bonds without bifurcating the embedded derivatives from fair value through profit or loss (FVTPL) to unquoted debt securities classified as loans (UDSCL) that are outstanding as of the effective date of reclassification, which was permitted by the BSP for prudential reporting, and by the Philippine Securities and Exchange Commission (SEC) for financial reporting purposes. However, on May 8 and September 20, 2013, BDO Unibank Group unwound the remaining outstanding CLNs related to reclassified securities with certain financial institutions amounting to P823 and P892, respectively. Hence, except for the Surplus free as of January 1, 2013 amounting to P22 and certain profit or loss account totaling P3 in 2013, which were both immaterial, BDO Unibank Group and the Parent Bank's financial statements as of December 31, 2014 and 2013 do not differ both under PFRS and FRSP for banks.

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated (see also Note 2.25).

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 2014 that are Relevant to BDO Unibank Group

In 2014, BDO Unibank Group adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

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

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. BDO Unibank Group's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on BDO Unibank Group's financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less costs of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of BDO Unibank Group's certain non-financial assets where impairment losses have been recognized were determined based on value-in-use, which have been adequately disclosed in accordance with PAS 36 (see Notes 11, 12 and 13.3).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. BDO Unibank Group enters into transactions involving derivative instrument; however, since it does not apply hedge accounting, the amendment did not have any impact on BDO Unibank Group's financial statements.

(iv) PFRS 10, 12 and PAS 27 (Amendments), *Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. This amendment had no significant impact on the BDO Unibank Group's financial statements.

(v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the BDO Unibank Group's financial statements.

(b) Effective Subsequent to 2014 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014, which are issued by the FRSC, subject to the approval of the BOA. 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 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

(iv) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(v) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9. As of the end of the reporting period, the BDO Unibank Group has no plan to change the accounting policy for its investments in its subsidiaries and associates.

(vi) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

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

(viii) PFRS 10 (Amendment), *Consolidated Financial Statements - Investment Entities: Applying the consolidation exception* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(ix) PFRS 11 (Amendment), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(x) 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 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 on the financial statements of BDO Unibank Group since it may or may not significantly impact the financial statements and it is conducting a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(xi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect those to have material impact on the BDO Unibank Group's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

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

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

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

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

(f) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

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

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

Annual Improvements to PFRS (2012-2014 Cycle)

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

(b) PAS 34 (Amendment), *Interim Financial Reporting - Disclosure of information "elsewhere in the interim financial report"*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

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

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

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

2.3 Basis of Consolidation

The Parent Bank obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in resources are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

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

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

(a) *Investments in Subsidiaries*

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

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

Except as otherwise indicated, the acquisition of subsidiaries are accounted for using the acquisition method (see Note 2.12). Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BDO Unibank Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2014	2013	2012
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	**99%**	99%	99%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	**100%**	-	-
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**100%**	100%	100%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**89%**	89%	87%
Averon Holdings Corporation	**100%**	100%	-
BDO Rental, Inc. (BDO Rental)	**89%**	89%	87%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**100%**	100%	100%
PCIB Securities, Inc.	**100%**	100%	100%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%
Insurance Companies			
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
PCIB Europe S.p.A.	**100%**	100%	100%
Express Padala Frankfurt GmbH	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	-	-
BDO Remit (Canada) Ltd.	**100%**	-	-
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
CBN Grupo International Holdings B.V. (CBN Grupo)	**60%**	60%	-
Others			
MDB Land, Inc.	**100%**	100%	100%
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2014 and 2013 represent the interests not held by BDO Unibank Group in BDO Savings (0.1%), BDO Leasing, BDO Rental, BDO Elite, Equimark, CBN Grupo and ASI.

2.4 Segment Reporting

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

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

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

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

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

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

2.5 Financial Assets

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

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

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

(a) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or which 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 "held for trading" 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 and for CLNs and derivatives embedded in CLNs linked to ROP bonds as permitted by the BSP for prudential reporting and by the SEC for financial reporting.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans receivables, sales contract receivables, and all receivables from customers and other banks. Loans and receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents consist of cash, due from BSP and amounts due from other banks. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank call loans receivable 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.

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables (see Note 2.23).

(c) HTM Investments

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

HTM investments consisted of government and private debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting period 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 (see Note 2.23).

(d) AFS Securities

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

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

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income (see Note 2.23).

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gain 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.

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

2.6 Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value (except for the embedded derivatives in CLNs linked to ROP bonds which BDO Unibank Group reclassified to loans and other receivables together with the host CLN in the prior years). 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

Premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and 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, net of applicable deferred tax.

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.24).

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

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

2.8 Investment Properties

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

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Note 2.24).

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 in the year of retirement or disposal (see Note 22).

2.9 Real Properties for Development and Sale

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

Land acquired for home building, home development and other types of real estate development is also carried at the lower of aggregate cost and NRV. Costs include acquisition costs and, once real estate development commences, the cost of these properties, including development costs incurred, is classified as Real properties for development and sale and is presented as part of Other Resources in the statement of financial position.

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 is presented as part of Income from assets sold or exchanged under Other Operating Income in the year of retirement or disposal (see Note 22).

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. Starting 2014, for real properties acquired through foreclosure, BDO Unibank Group included in its criteria that there should be an existence of a buyer before a foreclosed real property can be classified as Non-current Asset Held for Sale [see Note 3.1(e)].

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

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

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

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

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.24). Associates are all entities over which BDO Unibank Group has significant influence but which are neither subsidiaries nor interest in a joint venture.

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

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

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings (Losses) of Associates account 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 2.24).

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

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are carried at cost, less any impairment losses (see Note 2.24).

2.12 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.24). 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 is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interests method.

2.13 Prepayments and Other Resources

Prepayments and other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably.

2.14 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.24). 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. The trading right is tested annually for any impairment in realizable value (see Note 2.24).

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.

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment in accordance with PAS 36 by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.24).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.15 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and subordinated notes payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivatives with negative fair values are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Lease deposits from operating and finance leases (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day one gain and is included as part of Miscellaneous 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 are approved by the BSP.

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.16 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.17 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 19.6).

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized gains (losses) of AFS securities arises from cumulative mark-to-market valuation of outstanding AFS securities.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets.

Accumulated translation adjustment pertains to exchange differences arising on translation of the resources and liabilities of foreign subsidiaries that are taken up in other comprehensive income (see Note 2.25).

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 statements of financial position and changes in equity.

Other reserves pertain to amount recognized from increase in percentage of ownership of any of the subsidiaries of BDO Unibank Group (see Note 19.7).

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.

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.

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 – net under Other Operating Income (see Note 2.22).

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(i)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.21 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g. legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss on a straight-line basis over the lease term.

(b) *BDO Unibank Group as Lessee*

Leases, which do not transfer to BDO Unibank Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expense as incurred.

BDO Unibank Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.23 Impairment of Financial Assets

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified yet with the individual financial assets in the group.

(a) *Assets carried at amortized cost*

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as Miscellaneous – net account under Other Operating Income in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

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:

(i) clean loans and advances past due for a period of more than six months;
(ii) 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;

(iii) past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
(iv) when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
(v) accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
(vi) accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly receivables related to financing.

(b) *Assets carried at fair value with changes recognized in other comprehensive income*

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. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) *Assets carried at cost*

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.

2.24 Impairment of Non-financial Assets

BDO Unibank Group's real properties for development and sale, equity investments, goodwill, branch licenses, trading rights, 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.

2.25 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 the FCDUs and foreign branch and subsidiaries which are maintained in U.S. dollars, European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY) or Hong Kong dollars.

The operating results and financial position of foreign branch and subsidiaries which are measured using the U.S. dollars, Euro, GBP, Yen or Hong Kong dollars, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

i. Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

iii. All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.18). When a foreign operation is sold, the cumulative amount of exchange differences are recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY or Hong Kong dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.26 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:

(a) Post-employment Defined Benefit

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Others under Interest Expense in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by BDO Unibank Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) *Bonus Plans*

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(e) *Executive Stock Option Plan*

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years (vesting period) starting from the date of the approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is included as part of Compensation and benefits expense 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.

2.27 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.

2.28 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued and not purchased from the market or stock exchange). Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.29 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.

2.30 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) Classifying Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2013, BDO Unibank Group reclassified its HTM investments to AFS securities. Accordingly, the rest of the HTM portfolio was reclassified to AFS securities in accordance with PAS 39 (see Note 9.3).

(b) Evaluating Impairment of AFS Securities

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash 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 2014 and 2013 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) Distinguishing Operating and Finance Leases

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(e) Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, for chattels as Non-current assets held for sale (presented under Other Resources) if expected to be recovered through sale rather than use, for 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 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.

Starting 2014, BDO Unibank Group provides additional criterion for classifying real properties to Non-Current Asset Held for Sale (NCAHS) such that the real properties should have a ready buyer before it can be booked as NCAHS. Accounts previously classified as NCAHS with no ready buyers were reclassified to Investment Properties in 2014.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.21 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

BDO Unibank Group reviews its AFS securities, HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

BDO Unibank Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if BDO Unibank Group had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) *Determining Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates. BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(d) *Estimating Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Properties*

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other properties are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2014 and 2013, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Properties*

Investment Properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition. BDO Unibank Group engages services of professional external or internal appraisers applying the relevant valuation methodologies as discussed in Note 6.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(f) Determining Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2014 and 2013 is disclosed in Note 27.1.

(g) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.24. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

(h) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 23.

(i) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 18.

4. RISK MANAGEMENT

By their nature, BDO Unibank Group's activities are principally related to the use of financial instruments including derivatives. BDO Unibank Group accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn above average interest margins by investing these funds in high-quality assets. BDO Unibank Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. BDO Unibank Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including credit, liquidity, market (foreign exchange, interest rate, price risks) and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital. BDO Unibank Group's Risk Management Committee (RMC) has overall responsibility for BDO Unibank Group's risk management systems and sets risk management policies across the full range of risks to which BDO Unibank Group is exposed. Specifically, BDO Unibank Group's RMC places limits on the level of exposure that can be taken in trading positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing BDO Unibank Group's statement of financial position, including BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the BDO Unibank Group's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

RMG has responsibility for the setting of risk policies across the full range of risks to which BDO Unibank Group is exposed.

In the performance of its function, RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.

- It disseminates the approved policies to the relevant businesses/functions including authorities delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. RMG then performs compliance review to ensure approved policies are adhered to.

- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.

- When adverse trends are observed in the account/portfolio, RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- RMG is responsible for the direct management of Non-Performing Loan (NPL) accounts under its supervision and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2014 and 2013 in accordance with account classification of the BSP, is presented subsequently. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2014				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 41,342	P -	P -	P -	P 41,342
Due from BSP and other banks	314,788	352	19	4	315,163
Loans and other receivables - net	453,499	134,949	149,859	474,623	1,212,930
Trading and investment securities	11,387	5,512	54,301	150,310	221,510
Other resources	6,771	2,114	-	63,819	72,704
Total Resources	827,787	142,927	204,179	688,756	1,863,649
Liabilities and Equity:					
Deposit liabilities	454,731	11,564	7,846	1,018,141	1,492,282
Bills and subordinated notes payable	47,948	2,372	55,066	5,005	110,391
Other liabilities	21,950	1,107	2,056	56,194	81,307
Total Liabilities	524,629	15,043	64,968	1,079,340	1,683,980
Equity	-	-	-	179,669	179,669
Total Liabilities and Equity	524,629	15,043	64,968	1,259,009	1,863,649
On-book gap	303,158	127,884	139,211	(570,253)	-
Cumulative on-book gap	303,158	431,042	570,253	-	-
Contingent assets	185,404	28,324	53,469	41,039	308,236
Contingent liabilities	216,686	29,243	60,510	39,824	346,263
Off-book gap	(31,282)	(919)	(7,041)	1,215	(38,027)
Net Periodic Gap	271,876	126,965	132,170	(569,038)	-
Cumulative Total Gap	**P 271,876**	**P 398,841**	**P 531,011**	**(P 38,027)**	**P -**

BDO Unibank Group

	2013				
	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 27,824	P -	P -	P -	P 27,824
Due from BSP and other banks	435,308	-	9	5	435,322
Loans and other receivables - net	299,388	83,162	156,585	383,418	922,553
Trading and investment securities	13,100	4,469	29,884	180,457	227,910
Other resources	1,554	2,356	1,776	53,483	59,169
Total Resources	777,174	89,987	188,254	617,363	1,672,778
Liabilities and Equity:					
Deposit liabilities	479,635	13,678	5,594	846,426	1,345,333
Bills and subordinated notes payable	63,901	1,139	7,613	24,597	97,250
Other liabilities	11,922	48,311	3,998	1,610	65,841
Total Liabilities	555,458	63,128	17,205	872,633	1,508,424
Equity	-	-	-	164,354	164,354
Total Liabilities and Equity	555,458	63,128	17,205	1,036,987	1,672,778
On-book gap	221,716	26,859	171,049	(419,624)	-
Cumulative on-book gap	221,716	248,575	419,624	-	-
Contingent assets	74,773	12,049	10,086	16,135	113,043
Contingent liabilities	64,012	13,215	9,641	15,320	102,188
Off-book gap	10,761	(1,166)	445	815	10,855
Net Periodic Gap	232,477	25,693	171,494	(418,809)	-
Cumulative Total Gap	P 232,477	P 258,170	P 429,664	P 10,855	P -

Parent Bank

	2014				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 41,237	P -	P -	P -	P 41,237
Due from BSP and other banks	301,577	-	-	4	301,581
Loans and other receivables - net	450,461	128,662	137,660	465,401	1,182,184
Trading and investment securities	9,402	4,570	46,109	135,368	195,449
Other resources	6,484	2,113	-	64,025	72,622
Total Resources	809,161	135,345	183,769	664,798	1,793,073
Liabilities and Equity:					
Deposit liabilities	435,115	11,280	7,222	1,010,472	1,464,089
Bills and subordinated notes payable	35,298	1,819	46,238	11,744	95,099
Other liabilities	21,122	-	-	44,236	65,358
Total Liabilities	491,535	13,099	53,460	1,066,452	1,624,546
Equity	-	-	-	168,527	168,527
Total Liabilities and Equity	491,535	13,099	53,460	1,234,979	1,793,073
On-book gap	317,626	122,246	130,309	(570,181)	-
Cumulative on-book gap	317,626	439,872	570,181	-	-
Contingent assets	174,670	20,486	12,294	1,212	208,662
Contingent liabilities	198,922	21,621	20,191	1,210	241,944
Off-book gap	(24,252)	(1,135)	(7,897)	2	(33,282)
Net Periodic Gap	293,374	121,111	122,412	(570,179)	-
Cumulative Total Gap	**P 293,374**	**P 414,485**	**P 536,897**	**(P 33,282)**	**P -**

	2013				
	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 27,736	P -	P -	P -	P 27,736
Due from BSP and other banks	409,012	-	-	4	409,016
Loans and other receivables - net	287,110	77,223	146,878	396,182	907,393
Trading and investment securities	9,769	4,182	28,386	165,410	207,747
Other resources	1,571	2,445	2,275	56,598	62,889
Total Resources *(balance carried forward)*	P 735,198	P 83,850	P 177,539	P 618,194	P 1,614,781

Parent Bank

	2013				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Total Resources *(balance brought forward)*	P 735,198	P 83,850	P 177,539	P 618,194	P 1,614,781
Liabilities and Equity:					
Deposit liabilities	459,912	12,975	3,750	840,495	1,317,132
Bills and subordinated notes payable	53,709	-	64	32,061	85,834
Other liabilities	11,524	44,397	2,115	71	58,107
Total Liabilities	525,145	57,372	5,929	872,627	1,461,073
Equity	-	-	-	153,708	153,708
Total Liabilities and Equity	525,145	57,372	5,929	1,026,335	1,614,781
On-book gap	210,053	26,478	171,610	(408,141)	-
Cumulative on-book gap	210,053	236,531	408,141	-	-
Contingent assets	73,437	8,089	2,447	2,271	86,244
Contingent liabilities	62,725	9,463	2,404	2,033	76,625
Off-book gap	10,712	(1,374)	43	238	9,619
Net Periodic Gap	220,765	25,104	171,653	(407,903)	-
Cumulative Total Gap	P 220,765	P 245,869	P 417,522	P 9,619	P -

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure during the day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

The breakdown of the financial assets and liabilities as to foreign and peso-denominated balances as of December 31, 2014 and 2013 follows:

BDO Unibank Group

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	**P 33**	**P 310,851**	**P 310,884**	P 31	P 436,176	P 436,207
Due from other banks	**45,200**	**421**	**45,621**	26,787	152	26,939
Trading and investment						
securities:						
At FVTPL	**2,242**	**6,526**	**8,768**	2,310	7,438	9,748
AFS securities	**154,132**	**58,610**	**212,742**	182,777	35,385	218,162
Loans and other receivables	**206,944**	**1,005,986**	**1,212,930**	134,583	787,970	922,553
Other resources	**3,407**	**587**	**3,994**	2,243	174	2,417
	P 411,958	**P 1,382,981**	**P 1,794,939**	P 348,731	P 1,267,295	P 1,616,026
Liabilities:						
Deposit liabilities	**P 291,809**	**P 1,200,473**	**P 1,492,282**	P 236,489	P 1,108,844	P 1,345,333
Bills payable	**85,000**	**15,361**	**100,361**	83,756	10,487	94,243
Subordinated notes payable	**-**	**10,030**	**10,030**	-	3,007	3,007
Other liabilities	**2,287**	**76,198**	**78,485**	2,303	61,125	63,428
	P 379,096	**P 1,302,062**	**P 1,681,158**	P 322,548	P 1,183,463	P 1,506,011

Parent Bank

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items						
and due from BSP	**P -**	**P 299,653**	**P 299,653**	P -	P 412,097	P 412,097
Due from other banks	**43,092**	**73**	**43,165**	24,611	44	24,655
Trading and investment						
securities:						
At FVTPL	**1,993**	**3,320**	**5,313**	2,103	1,811	3,914
AFS securities	**147,136**	**43,000**	**190,136**	177,592	26,241	203,833
Loans and other receivables	**207,840**	**974,344**	**1,182,184**	134,458	772,935	907,393
Other resources	**3,407**	**245**	**3,652**	2,243	98	2,341
	P 403,468	**P 1,320,635**	**P 1,724,103**	P 341,007	P 1,213,226	P 1,554,233

Parent Bank

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Liabilities:						
Deposit liabilities	**P 284,653**	**P 1,179,436**	**P 1,464,089**	P 229,989	P 1,087,143	P 1,317,132
Bills payable	**85,000**	**69**	**85,069**	82,711	116	82,827
Subordinated notes payable	**-**	**10,030**	**10,030**	-	3,007	3,007
Other liabilities	**2,104**	**60,788**	**62,892**	2,023	53,967	55,990
	P 371,757	**P 1,250,323**	**P 1,622,080**	P 314,723	P 1,144,233	P 1,458,956

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2014 and 2013 based on the expected interest realization or recognition are presented below and in the succeeding pages.

BDO Unibank Group

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,342	P 41,342
Due from BSP/ other banks	35,045	342	19	-	279,757	315,163
Loans and other receivables	777,650	89,898	209,143	135,267	972	1,212,930
Trading and investment securities	6,880	5,512	116,052	87,931	5,135	221,510
Other resources	-	-	-	-	72,704	72,704
Total Resources *(balance carried forward)*	P 819,575	P 95,752	P 325,214	P 223,198	P 399,910	P 1,863,649

BDO Unibank Group

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Total Resources *(balance brought forward)*	P 819,575	P 95,752	P 325,214	P 223,198	P 399,910	P 1,863,649
Liabilities and Equity:						
Deposit liabilities	454,444	32,694	77,225	20,652	907,267	1,492,282
Bills and subordinated notes payable	49,049	2,804	48,477	10,061	-	110,391
Other liabilities	10,424	1,806	4,316	80	64,681	81,307
Total Liabilities	513,917	37,304	130,018	30,793	971,948	1,683,980
Equity	-	-	-	-	179,669	179,669
Total Liabilities and Equity	513,917	37,304	130,018	30,793	1,151,617	1,863,649
On-book gap	305,658	58,448	195,196	192,405	(751,707)	-
Cumulative on-book gap	305,658	364,106	559,302	751,707	-	-
Contingent assets	32,204	2,035	-	-	-	34,239
Contingent liabilities	32,198	2,012	-	-	-	34,210
Off-book gap	6	23	-	-	-	29
Net Periodic Gap	305,664	58,471	195,196	192,405	(751,707)	-
Cumulative Total Gap	**P 305,664**	**P 364,135**	**P 559,331**	**P 751,736**	**P 29**	**P -**

	2013					
	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 27,824	P 27,824
Due from BSP/ other banks	212,555	-	9	-	222,758	435,322
Loans and other receivables	529,978	77,278	173,948	141,349	-	922,553
Trading and investment securities	10,956	4,469	67,334	135,403	9,748	227,910
Other resources	-	-	-	-	59,169	59,169
Total Resources	753,489	81,747	241,291	276,752	319,499	1,672,778
Liabilities and Equity:						
Deposit liabilities	474,966	48,366	51,417	32,164	738,420	1,345,333
Bills and subordinated notes payable	62,851	1,950	4,249	28,200	-	97,250
Other liabilities	867	703	2,615	11	61,645	65,841
Total Liabilities	538,684	51,019	58,281	60,375	800,065	1,508,424
Equity	-	-	-	-	164,354	164,354
Total Liabilities and Equity *(balance carried forward)*	P 538,684	P 51,019	P 58,281	P 60,375	P 964,419	P 1,672,778

BDO Unibank Group

	2013					
	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
Total Liabilities and Equity *(balance brought forward)*	P 538,684	P 51,019	P 58,281	P 60,375	P 964,419	P 1,672,778
On-book gap	214,805	30,728	183,010	216,377	(644,920)	-
Cumulative on-book gap	214,805	245,533	428,543	644,920	-	-
Contingent assets	14,338	2,190	7,126	243	-	23,897
Contingent liabilities	14,413	2,220	7,125	244	-	24,002
Off-book gap	(75)	(30)	1	(1)	-	(105)
Net Periodic Gap	214,730	30,698	183,011	216,376	(644,920)	-
Cumulative Total Gap	P 214,730	P 245,428	P 428,439	P 644,815	(P 105)	P -

Parent Bank

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,237	P 41,237
Due from BSP/ other banks	27,594	-	-	-	273,987	301,581
Loans and other receivables	775,241	83,717	192,091	131,135	-	1,182,184
Trading and investment securities	5,239	4,570	108,309	73,148	4,183	195,449
Other resources	-	-	-	-	72,622	72,622
Total Resources	808,074	88,287	300,400	204,283	392,029	1,793,073
Liabilities and Equity:						
Deposit liabilities	432,887	31,989	75,762	20,653	902,798	1,464,089
Bills and subordinated notes payable	35,356	1,819	47,864	10,060	-	95,099
Other liabilities	6,484	-	-	-	58,874	65,358
Total Liabilities	474,727	33,808	123,626	30,713	961,672	1,624,546
Equity	-	-	-	-	168,527	168,527
Total Liabilities and Equity	474,727	33,808	123,626	30,713	1,130,199	1,793,073
On-book gap	333,347	54,479	176,774	173,570	(738,170)	-
Cumulative on-book gap *(balance carried forward)*	P 333,347	P 387,826	P 564,600	P 738,170	P -	P -

Parent Bank

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Cumulative on-book gap *(balance brought forward)*	P 333,347	P 387,826	P 564,600	P 738,170	P -	P -
Contingent assets	30,636	2,035	-	-	-	32,671
Contingent liabilities	30,633	2,012	-	-	-	32,645
Off-book gap	3	23	-	-	-	26
Net Periodic Gap	333,350	54,502	176,774	173,570	(738,170)	-
Cumulative Total Gap	**P 333,350**	**P 387,852**	**P 564,626**	**P 738,196**	**P 26**	**P -**

	2013					
	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 27,736	P 27,736
Due from BSP/ other banks	191,800	-	-	-	217,216	409,016
Loans and other receivables	526,482	71,217	159,613	150,081	-	907,393
Trading and investment securities	7,732	4,183	62,592	129,326	3,914	207,747
Other resources	-	-	-	-	62,889	62,889
Total Resources	726,014	75,400	222,205	279,407	311,755	1,614,781
Liabilities and Equity:						
Deposit liabilities	453,551	47,663	49,576	32,164	734,178	1,317,132
Bills and subordinated notes payable	53,385	-	4,249	28,200	-	85,834
Other liabilities	-	-	-	-	58,107	58,107
Total Liabilities	506,936	47,663	53,825	60,364	792,285	1,461,073
Equity	-	-	-	-	153,708	153,708
Total Liabilities and Equity	506,936	47,663	53,825	60,364	945,993	1,614,781
On-book gap	219,078	27,737	168,380	219,043	(634,238)	-
Cumulative on-book gap	219,078	246,815	415,195	634,238	-	-
Contingent assets	13,323	2,190	7,126	243	-	22,882
Contingent liabilities	13,407	2,220	7,125	243	-	22,995
Off-book gap	(84)	(30)	1	-	-	(113)
Net Periodic Gap	218,994	27,707	168,381	219,043	(634,238)	-
Cumulative Total Gap	P 218,994	P 246,701	P 415,082	P 634,125	(P 113)	P -

BDO Unibank Group's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. BDO Unibank Group uses the VaR model to estimate the daily potential loss that BDO Unibank Group can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in BDO Unibank Group's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. BDO Unibank Group uses a 99% confidence level and a 260-day observation period in VaR calculation. BDO Unibank Group's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in BDO Unibank Group's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon BDO Unibank Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2014		2013	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 21)**	**(P 267)**	(P 6)	(P 69)
Interest rate risk – Peso	**(33)**	**(455)**	(99)	(808)
Interest rate risk – USD	**(10)**	**(329)**	(7)	(115)
	(P 64)	**(P 1,051)**	(P 112)	(P 992)

Parent Bank

	2014		2013	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 21)**	**(P 267)**	(P 6)	(P 65)
Interest rate risk – Peso	**(25)**	**(281)**	(86)	(660)
Interest rate risk – USD	**(10)**	**(283)**	(5)	(88)
	(P 56)	**(P 831)**	(P 97)	(P 813)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2014 and 2013 is shown below.

BDO Unibank Group

	2014			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,054)**	**P 3,054**	**(P 1,527)**	**P 1,527**
As a percentage of the BDO Unibank Group's net interest income for 2014	**(6.0%)**	**6.0%**	**(3.0%)**	**3.0%**
Earnings-at-risk	**P 1,419**			

	2013			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 2,321)	P 2,321	(P 1,161)	P 1,161
As a percentage of the BDO Unibank Group's net interest income for 2013	(5.4%)	5.4%	(2.7%)	2.7%
Earnings-at-risk	P 1,639			

Parent Bank

	2014			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,350)**	**P 3,350**	**(P 1,675)**	**P 1,675**
As a percentage of the Parent Bank's net interest income for 2014	**(6.8%)**	**6.8%**	**(3.4%)**	**3.4%**
Earnings-at-risk	**P 1,535**			

	2013			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 2,424)	P 2,424	(P 1,212)	P 1,212
As a percentage of the Parent Bank's net interest income for 2013	(5.9%)	5.9%	(2.9%)	2.9%
Earnings-at-risk	P 1,697			

4.2.3 Price Risk

BDO Unibank Group is exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group classified on the statement of financial position either as AFS securities, HFT securities or financial assets at FVTPL. BDO Unibank Group is not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as HFT, financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index, which was 2.70% in 2014 and 5.96% in 2013 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)	
	2014	2013	**2014**	2013
HFT securities and Financial assets at FVTPL	**P 12**	P 0.43	**P -**	P -
AFS securities	**-**	-	**110**	502
	P 12	P 0.43	**P 110**	P 502

Parent Bank

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2014	2013	**2014**	2013
AFS securities	**P -**	P -	**P 154**	P 266

4.2.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. It manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

The RMG also undertakes portfolio management by reviewing BDO Unibank Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

4.2.4.1 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.

(i) 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.

(ii) 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:

(iii) Adversely Classified

a. Loans Especially Mentioned (LEM)

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to BDO Unibank Group.

A credit may also be classified as "Loans Especially Mentioned" if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

b. Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to BDO Unibank Group because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to BDO Unibank Group unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

d. 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. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets 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, 2014 and 2013 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2014		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities**
Carrying Amount	**P 1,212,930**	**P 45,621**	**P 211,353**
Individually Impaired			
Grade C: LEM	P 11,873	P -	P -
Grade D: Substandard	1,625	-	-
Grade E: Doubtful	2,083	-	1,008
Grade F: Loss	5,296	-	262
Gross amount	20,877	-	1,270
Allowance for impairment	(7,164)	-	(1,270)
Carrying amount	13,713	-	-
Collectively Impaired			
Unclassified	275	-	17,941
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,439	-	17,941
Allowance for impairment	(4,961)	-	(121)
Carrying amount	7,478	-	17,820
Past Due But Not Impaired			
Unclassified	1,275	-	-
Neither Past Due Nor Impaired			
Unclassified	1,190,464	45,621	193,533
Total Carrying Amount	**P 1,212,930**	**P 45,621**	**P 211,353**

BDO Unibank Group

	2013		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 922,553	P 26,939	P 216,936
Individually Impaired			
Grade C: LEM	P 7,037	P -	P -
Grade D: Substandard	1,331	-	-
Grade E: Doubtful	1,817	-	1,000
Grade F: Loss	5,877	-	262
Gross amount	16,062	-	1,262
Allowance for impairment	(8,149)	-	(1,262)
Carrying amount	7,913	-	-
Collectively Impaired			
Unclassified	-	-	10,107
Grade C: LEM	4,528	-	-
Grade D: Substandard	2,104	-	-
Grade E: Doubtful	674	-	-
Grade F: Loss	3,709	-	-
Gross amount	11,015	-	10,107
Allowance for impairment	(4,930)	-	(120)
Carrying amount	6,085	-	9,987
Past Due But Not Impaired			
Unclassified	1,274	-	-
Neither Past Due Nor Impaired			
Unclassified	907,281	26,939	206,949
Total Carrying Amount	P 922,553	P 26,939	P 216,936

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	
	2014	2013
Up to 30 days	**P 718**	P 746
31 to 60 days	**296**	368
61 to 90 days	**232**	156
91 to 180 days	**11**	1
More than 180 days	**18**	3
	P 1,275	P 1,274

An aging of neither past due nor impaired accounts of BDO Unibank Group reckoned from the last payment date follows:

	Loans and Other Receivables	
	2014	2013
Up to 30 days	**P 1,167,276**	P 878,424
31 to 60 days	**2,100**	15,678
61 to 90 days	**21,088**	13,179
	P 1,190,464	P 907,281

Parent Bank

	2014		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities**
Carrying Amount	**P 1,182,184**	**P 43,165**	**P 189,060**
Individually Impaired			
Grade C: LEM	P 11,086	P -	P -
Grade D: Substandard	1,319	-	-
Grade E: Doubtful	1,899	-	1,008
Grade F: Loss	5,141	-	262
Gross amount	19,445	-	1,270
Allowance for impairment	(6,921)	-	(1,270)
Carrying amount	12,524	-	-
Collectively Impaired			
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,164	-	-
Allowance for impairment	(4,646)	-	-
Carrying amount	7,518	-	-
Past Due But Not Impaired			
Unclassified	1,246	-	-
Neither Past Due Nor Impaired			
Unclassified	1,160,896	43,165	189,060
Total Carrying Amount	**P 1,182,184**	**P 43,165**	**P 189,060**

Parent Bank

	2013		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 907,393	P 24,655	P 200,397
Individually Impaired			
Grade C: LEM	P 5,840	P -	P -
Grade D: Substandard	1,047	-	-
Grade E: Doubtful	1,651	-	1,000
Grade F: Loss	5,717	-	262
Gross amount	14,255	-	1,262
Allowance for impairment	(7,695)	-	(1,262)
Carrying amount	6,560	-	-
Collectively Impaired			
Grade C: LEM	4,097	-	-
Grade D: Substandard	2,104	-	-
Grade E: Doubtful	674	-	-
Grade F: Loss	3,709	-	-
Gross amount	10,584	-	-
Allowance for impairment	(4,923)	-	-
Carrying amount	5,661	-	-
Past Due But Not Impaired			
Unclassified	1,274	-	-
Neither Past Due Nor Impaired			
Unclassified	893,898	24,655	200,397
Total Carrying Amount	P 907,393	P 24,655	P 200,397

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	
	2014	2013
Up to 30 days	**P 718**	P 746
31 to 60 days	**293**	368
61 to 90 days	**219**	156
91 to 180 days	**1**	1
More than 180 days	**15**	3
	P 1,246	P 1,274

An aging of neither past due nor impaired accounts of Parent Bank reckoned from the last payment date as follows:

	Loans and Other Receivables	
	2014	2013
Up to 30 days	**P 1,159,060**	P 877,623
31 to 60 days	**1,830**	14,854
61 to 90 days	**6**	1,421
	P 1,160,896	P 893,898

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P54,109 and P121,794, respectively, for 2014 and P37,423 and P121,989, respectively, for 2013 in BDO Unibank Group financial statements and P54,109 and P121,575, respectively, for 2014 and P37,423 and P121,676, respectively, for 2013 in the Parent Bank financial statements (see Note 31.3).

4.2.4.2 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	
	2014	2013	**2014**	2013
Individually impaired				
Property	**P 7,301**	P 5,591	**P 5,464**	P 5,183
Equity security	**4,232**	2,979	**3,845**	2,652
Hold-out deposits	**27**	100	**27**	100
Others	**1,224**	1,312	**1,224**	1,312
	12,784	9,982	**10,560**	9,247
Collectively impaired				
Property	**7,746**	5,590	**7,746**	5,590
Hold-out deposits	**2**	-	**2**	-
Others	**3,807**	2,301	**3,807**	2,301
	11,555	7,891	**11,555**	7,891
Balance carried forward	**P 24,339**	P 17,873	**P 22,115**	P 17,138

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance brought forward	**P 24,339**	P 17,873	**P 22,115**	P 17,138
Past due but not impaired				
Property	**2,231**	1,848	**2,210**	1,848
Hold-out deposits	**27**	16	**27**	16
Debt security	**6**	-	**6**	-
Others	**584**	518	**584**	518
	2,848	2,382	**2,827**	2,382
Neither past due nor impaired				
Property	**433,182**	340,998	**409,090**	340,998
Equity security	**152,214**	135,384	**151,934**	135,173
Hold-out deposits	**78,709**	92,450	**78,709**	92,450
Debt security	**4,532**	2,292	**4,101**	2,023
Others	**389,866**	354,412	**389,798**	354,330
	1,058,503	925,536	**1,033,632**	924,974
	P 1,085,690	P 945,791	**P 1,058,574**	P 944,494

As of December 31, 2014 and 2013, 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.

4.2.4.3 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

	2014			2013		
	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 442,678**	**P 181,628**	**P 128,548**	P 471,553	P 138,476	P 121,868
Wholesale and retail trade	**-**	**161,425**	**606**	-	145,088	1,173
Manufacturing	**-**	**137,676**	**20,709**	-	115,116	22,382
Real estate activities	**-**	**114,534**	**18,286**	-	119,910	12,547
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**113,049**	**-**	-	108,598	-
Electricity, gas, steam and air-conditioning supply	**-**	**103,584**	**-**	-	69,086	-
Transportation and storage	**-**	**50,267**	**1,784**	-	34,278	6,630
Accommodation and food service activities	**-**	**32,834**	**-**	-	18,492	-
Information and communication	**-**	**25,462**	**-**	-	28,812	-
Construction	**-**	**23,196**	**-**	-	16,067	-
Arts, entertainment and recreation	**-**	**17,613**	**-**	-	3,437	-
Professional, scientific and technical services	**-**	**15,128**	**-**	-	18,171	-
Water supply, sewerage waste management and remediation activities	**-**	**13,987**	**-**	-	14,536	-
Agriculture, forestry and fishing	**-**	**9,124**	**-**	-	9,643	522
Human health and social work activities	**-**	**9,316**	**-**	-	6,156	121
Mining and quarrying	**-**	**6,669**	**-**	-	6,846	-
Administrative and support services	**-**	**4,877**	**-**	-	2,534	-
Education	**-**	**1,827**	**-**	-	1,338	-
Public administrative and defense; compulsory social security	**-**	**322**	**-**	-	37	-
Activities of extraterritorial organizations and bodies	**-**	**53**	**-**	-	-	-
Other service activities	**-**	**66,798**	**42,811**	-	54,864	53,075
	P 442,678	**P 1,089,369**	**P 212,744**	P 471,553	P 911,485	P 218,318
Concentration by location:						
Philippines	**P 440,288**	**P 1,024,278**	**P 172,074**	P 445,968	P 888,915	P 171,371
Others	**2,390**	**65,091**	**40,670**	25,585	22,570	46,947
	P 442,678	**P 1,089,369**	**P 212,744**	P 471,553	P 911,485	P 218,318

Parent Bank

	2014			2013		
	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 428,991**	**P 179,415**	**P 109,896**	P 445,159	P 137,411	P 113,344
Wholesale and retail trade	**-**	**158,622**	**513**	-	142,767	506
Manufacturing	**-**	**134,201**	**18,523**	-	111,463	22,206
Real estate activities	**-**	**112,264**	**17,982**	-	117,313	12,336
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**112,172**	**-**	-	108,218	-
Electricity, gas, steam and air-conditioning supply	**-**	**101,667**	**-**	-	68,312	-
Transportation and storage	**-**	**47,566**	**1,439**	-	31,187	6,551
Accommodation and food service activities	**-**	**32,827**	**-**	-	18,489	-
Information and communication	**-**	**24,897**	**-**	-	28,278	
construction	**-**	**19,955**	**-**	-	13,315	-
Arts, entertainment and recreation	**-**	**15,075**	**-**	-	3,356	-
Professional, scientific and technical services	**-**	**15,010**	**-**	-	18,113	-
Water supply, sewerage waste management and remediation activities	**-**	**13,411**	**-**	-	13,939	-
Agriculture, forestry and fishing	**-**	**9,016**	**-**	-	9,531	522
Human health and social work activities	**-**	**8,901**	**-**	-	5,652	121
Mining and quarrying	**-**	**4,542**	**-**	-	4,464	-
Administrative and support services	**-**	**4,469**	**-**	-	2,219	-
Education	**-**	**1,794**	**-**	-	1,311	-
Public administrative and defense; compulsory social security	**-**	**303**	**-**	-	28	-
Activities of extraterritorial organizations and bodies	**-**	**53**	**-**	-	-	-
Other service activities	**-**	**70,420**	**41,977**	-	61,351	46,073
	P 428,991	**P 1,066,580**	**P 190,330**	P 445,159	P 896,717	P 201,659
Concentration by location:						
Philippines	**P 428,831**	**P 1,001,024**	**P 152,359**	P 421,872	P 873,575	P 156,607
Others	**160**	**65,556**	**37,971**	23,287	23,142	45,052
	P 428,991	**P 1,066,580**	**P 190,330**	P 445,159	P 896,717	P 201,659

* *Cash and cash equivalents include SPURRA.*
** *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.*

4.3 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management System (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs and KRIs. To capture and assess operational risks arising from information security concerns, a bank-wide asset inventory was prepared. The inventory identified critical applications, sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as, protection measures in place to mitigate these risks.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's four service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined below as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, and financial advisory services;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts; and,

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases; and,

(e) ***Others*** – includes asset management, insurance brokerage, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2014, 2013 and 2012 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2014							
Statement of Income							
Total interest income							
External	P 60,673	P 73	P 1,298	P 1,445	P 94	P -	P 63,583
Intersegment	198	4	4	-	8	(214)	-
	60,871	77	1,302	1,445	102	(214)	63,583
Total interest expense							
External	11,715	3	242	366	32	-	12,358
Intersegment	12	73	-	93	34	(212)	-
	11,727	76	242	459	66	(212)	12,358
Net interest income	49,144	1	1,060	986	36	(2)	51,225
Other operating income							
Investment banking fees	-	1,144	-	-	-	-	1,144
Others	27,026	269	627	827	2,074	(2,480)	28,343
	27,026	1,413	627	827	2,074	(2,480)	29,487
Other operating expenses							
Depreciation and amortization	2,640	48	46	498	30	-	3,262
Impairment losses	5,014	(1)	1	100	-	-	5,114
Others	42,197	689	1,031	507	979	(135)	45,268
	49,851	736	1,078	1,105	1,009	(135)	53,644
Profit before tax	26,319	678	609	708	1,101	(2,347)	27,068
Tax expense	3,522	198	168	206	146	-	4,240
Net profit	P 22,797	P 480	P 441	P 502	P 955	(P 2,347)	P 22,828
Statement of Financial Position							
Total resources							
Segment assets	P1,782,613	P 13,949	P 38,779	P 29,220	P 10,308	(P 21,693)	P 1,853,176
Intangible assets	4,247	102	18	60	13	-	4,440
Deferred tax assets	6,213	(193)	73	(41)	(19)	-	6,033
	P1,793,073	P 13,858	P 38,870	P 29,239	P 10,302	(P 21,693)	P 1,863,649
Total liabilities	P1,624,546	P 10,694	P 33,024	P 24,255	P 2,243	(P 10,782)	P 1,683,980
Other segment information							
Capital expenditures	**P 7,255**	**P 16**	**P 41**	**P 1,183**	**P 23**	**P -**	**P 8,518**
Investment in associates under equity method	**5,840**	**51**	**-**	**-**	**-**	**-**	**5,891**
Share in the profit of associates	**637**	**15**	**-**	**-**	**-**	**-**	**652**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2013							
Statement of Income							
Total interest income							
External	P 54,262	P 72	P 956	P 1,292	P 24	P -	P 56,606
Inter-segment	217	3	2	-	9	(231)	-
	54,479	75	958	1,292	33	(231)	56,606
Total interest expense							
External	13,001	16	158	265	-	-	13,440
Inter-segment	12	40	1	148	29	(230)	-
	13,013	56	159	413	29	(230)	13,440
Net interest income	41,466	19	799	879	4	(1)	43,166
Other operating income							
Investment banking fees	-	1,165	-	-	-	-	1,165
Others	27,079	266	1,452	615	1,975	(708)	30,679
	27,079	1,431	1,452	615	1,975	(708)	31,844
Other operating expenses							
Depreciation and amortization	2,356	15	42	327	20	-	2,760
Impairment losses	6,216	44	32	126	(43)	626	7,001
Others	38,015	542	853	461	756	(128)	40,499
	46,587	601	927	914	733	498	50,260
Profit before tax	21,958	849	1,324	580	1,246	(1,207)	24,750
Tax expense	1,428	223	154	160	139	-	2,104
Net profit	P 20,530	P 626	P 1,170	P 420	P 1,107	(P 1,207)	P 22,646
Statement of Financial Position							
Total resources							
Segment assets	1,609,652	5,933	39,762	25,376	10,552	(25,163)	1,666,112
Intangible assets	612	101	11	-	1	-	725
Deferred tax assets	6,113	(190)	67	(24)	(25)	-	5,941
	P 1,616,377	P 5,844	P 39,840	P 25,352	P 10,528	(P 25,163)	P 1,672,778
Total liabilities	P 1,461,077	P 3,108	P 33,601	P 20,580	P 2,317	(P 12,259)	P 1,508,424
Other segment information							
Capital expenditures	P 3,328	P 1,486	P 21	P 1,101	P 1,210	P -	P 7,146
Investment in associates under equity method	5,362	36	-	-	-	-	5,398
Share in the profit of associates	593	13	-	-	-	-	606

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2012							
Statement of Income							
Total interest income							
External	P 51,576	P 88	P 1,046	P 1,270	P 34	P -	P 54,014
Intersegment	142	6	2	-	14	(164)	-
	51,718	94	1,048	1,270	48	(164)	54,014
Total interest expense							
External	17,225	4	302	361	1	-	17,893
Intersegment	20	43	1	98	1	(163)	-
	17,245	47	303	459	2	(163)	17,893
Net interest income	34,473	47	745	811	46	(1)	36,121
Other operating income							
Investment banking fees	-	700	-	-	-	-	700
Others	21,703	195	545	485	1,775	(976)	23,727
	21,703	895	545	485	1,775	(976)	24,427
Other operating expenses							
Depreciation and amortization	2,800	4	39	195	21	-	3,059
Impairment losses	4,850	1	(27)	112	5	-	4,941
Others	34,313	308	710	467	761	(124)	36,435
	41,963	313	722	774	787	(124)	44,435
Profit before tax	14,213	629	568	522	1,034	(853)	16,113
Tax expense	1,128	152	83	111	97	-	1,571
Net profit	P 13,085	P 477	P 485	P 411	P 937	(P 853)	P 14,542
Other segment information							
Capital expenditures	P 2,890	P 4	P 47	P 369	P 19	P -	P 3,329
Investment in associates under equity method	4,985	22	-	-	-	-	5,007
Share in the profit of associates	448	22	-	-	-	-	470

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

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and Receivables:				
Cash and other cash items	P 41,342	P -	P 41,342	P 41,342
Due from BSP	269,542	-	269,542	269,542
Due from other banks	45,621	-	45,621	45,621
Loans and other receivables	1,212,930	-	1,212,930	1,229,918
Other resources	3,994	-	3,994	3,994
Financial assets at FVTPL	-	8,768	8,768	8,768
AFS securities*	-	212,407	212,407	212,407
	P 1,573,429	P 221,175	P 1,794,604	P 1,811,592
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,492,282	P -	P 1,492,282	P 1,476,026
Bills payable	100,361	-	100,361	100,955
Subordinated notes payable	10,030	-	10,030	10,347
Other liabilities	75,853	-	75,853	75,853
At fair value:				
Other liabilities	-	2,632	2,632	2,632
	P 1,678,526	P 2,632	P 1,681,158	P 1,665,813

	2013			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and Receivables:				
Cash and other cash items	P 27,824	P -	P 27,824	P 27,824
Due from BSP	408,383	-	408,383	408,383
Due from other banks	26,939	-	26,939	26,939
Loans and other receivables	922,553	-	922,553	940,764
Other resources	2,417	-	2,417	2,417
Financial assets at FVTPL	-	9,748	9,748	9,748
AFS securities*	-	217,668	217,668	217,668
	P 1,388,116	P 227,416	P 1,615,532	P 1,633,743

BDO Unibank Group

	2013			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,345,333	P -	P 1,345,333	P 1,346,848
Bills payable	94,243	-	94,243	95,093
Subordinated notes payable	3,007	-	3,007	3,046
Other liabilities	59,983	-	59,983	59,983
At fair value:				
Other liabilities	-	3,445	3,445	3,445
	P 1,502,566	P 3,445	P 1,506,011	P 1,508,415

Parent Bank

	2014			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets				
Loans and Receivables:				
Cash and other cash items	**P 41,237**	**P -**	**P 41,237**	**P 41,237**
Due from BSP	**258,416**	**-**	**258,416**	**258,416**
Due from other banks	**43,165**	**-**	**43,165**	**43,165**
Loans and other receivables	**1,182,184**	**-**	**1,182,184**	**1,198,795**
Other resources	**3,652**	**-**	**3,652**	**3,652**
Financial assets at FVTPL	**-**	**5,313**	**5,313**	**5,313**
AFS securities*	**-**	**189,927**	**189,927**	**189,927**
	P 1,528,654	**P 195,240**	**P 1,723,894**	**P 1,740,505**
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 1,464,089**	**P -**	**P 1,464,089**	**P 1,445,056**
Bills payable	**85,069**	**-**	**85,069**	**85,718**
Subordinated notes payable	**10,030**	**-**	**10,030**	**10,347**
Other liabilities	**62,076**	**-**	**62,076**	**62,076**
At fair value:				
Other liabilities	**-**	**816**	**816**	**816**
	P 1,621,264	**P 816**	**P 1,622,080**	**P 1,604,013**

	2013							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets								
Loans and Receivables:								
Cash and other cash items	P	27,736	P	-	P	27,736	P	27,736
Due from BSP		384,361		-		384,361		384,361
Due from other banks		24,655		-		24,655		24,655
Loans and other receivables		907,393		-		907,393		922,367
Other resources		2,341		-		2,341		2,341
Financial assets at FVTPL		-		3,914		3,914		3,914
AFS securities*		-		203,553		203,553		203,553
	P	1,346,486	P	207,467	P	1,553,953	P	1,568,927
Financial Liabilities								
At amortized cost:								
Deposit liabilities	P	1,317,132	P	-	P	1,317,132	P	1,318,624
Bills payable		82,827		-		82,827		83,756
Subordinated notes payable		3,007		-		3,007		3,046
Other liabilities		54,362		-		54,362		54,362
At fair value:								
Other liabilities		-		1,628		1,628		1,628
	P	1,457,328	P	1,628	P	1,458,956	P	1,461,416

** Unquoted AFS securities (amounting to P335 and P494 for BDO Unibank Group in 2014 and 2013, respectively, and P209 and P280 for the Parent Bank in 2014and 2013, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When BDO Unibank Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2014 and 2013 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 P335 and P494 in 2014 and 2013, respectively, in BDO Unibank Group financial statements and P209 and P280 in 2014 and 2013, respectively, in the Parent Bank financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		**P -**	**P 3,609**	**P -**	**P 3,609**
Government bonds		**4,199**	**-**	**-**	**4,199**
Other debt securities		**824**	**-**	**-**	**824**
Equity securities – quoted		**136**	**-**	**-**	**136**
		5,159	**3,609**	**-**	**8,768**
AFS securities – net	9.2				
Government debt securities		**141,566**	**-**	**-**	**141,566**
Other debt securities		**61,156**	**-**	**-**	**61,156**
Equity securities – quoted		**9,684**	**1**	**-**	**9,685**
		212,406	**1**	**-**	**212,407**
		P 217,565	**P 3,610**	**P -**	**P 221,175**
Liabilities:					
Derivatives with negative fair values	18	**P 30**	**P 2,550**	**P -**	**P 2,580**

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2013					
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		P -	P 4,458	P -	P 4,458
Government bonds		1,984	-	-	1,984
Other debt securities		3,294	-	-	3,294
Equity securities – quoted		12	-	-	12
		5,290	4,458	-	9,748
AFS securities - net	9.2				
Government debt securities		147,906	18	-	147,924
Other debt securities		59,121	-	-	59,121
Equity securities - quoted		10,497	126	-	10,623
		217,524	144	-	217,668
		P 222,814	P 4,602	P -	P 227,416
Liabilities:					
Derivatives with negative fair values	18	P -	P 3,445	P -	P 3,445

Parent Bank

December 31, 2014

	Notes	Level 1	Level 2	Level 3	Total
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		**P -**	**P 1,112**	**P -**	**P 1,112**
Government bonds		**3,983**	**-**	**-**	**3,983**
Other debt securities		**218**	**-**	**-**	**218**
		4,201	**1,112**	**-**	**5,313**
AFS securities - net	9.2				
Government debt securities		**127,866**	**-**	**-**	**127,866**
Other debt securities		**55,881**	**-**	**-**	**55,881**
Equity securities - quoted		**6,179**	**1**	**-**	**6,180**
		189,926	**1**	**-**	**189,927**
		P 194,127	**P 1,113**	**P -**	**P 195,240**
Liabilities:					
Derivatives with negative fair values	18	**P 30**	**P 786**	**P -**	**P 816**

December 31, 2013

	Notes	Level 1	Level 2	Level 3	Total
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		P -	P 1,890	-	P 1,890
Government bonds		1,792	-	-	1,792
Other debt securities		232	-	-	232
		2,024	1,890	-	3,914
AFS securities - net	9.2				
Government debt securities		142,170	18	-	142,188
Other debt securities		54,294	-	-	54,294
Equity securities - quoted		6,945	126	-	7,071
		203,409	144	-	203,553
		P 205,433	P 2,034	P -	P 207,467

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
Liabilities:					
Derivatives with negative fair values	18	P -	P 1,628	P -	P 1,628

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

a) Equity securities

As of December 31, 2014 and 2013, 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 value of 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*

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Resources:				
Cash and other cash items	P 41,342	P -	P -	P 41,342
Due from BSP	269,542	-	-	269,542
Due from other banks	45,621	-	-	45,621
Loans and other receivable	-	-	1,229,918	1,229,918
Other resources	3,695	-	299	3,994
	P 360,200	P -	P 1,230,217	P 1,590,417
Liabilities:				
Deposit liabilities	P 1,395,626	P -	P 80,400	P 1,476,026
Bills payable	27,606	73,349	-	100,955
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	75,853	75,853
	P 1,423,232	P 83,696	P 156,253	P 1,663,181
December 31, 2013				
Resources:				
Cash and other cash items	P 27,824	P -	P -	P 27,824
Due from BSP	408,383	-	-	408,383
Due from other banks	26,939	-	-	26,939
Loans and other receivable	-	-	940,764	940,764
Other resources	2,243	-	174	2,417
	P 465,389	P -	P 940,938	P 1,406,327
Liabilities:				
Deposit liabilities	P 1,234,720	P -	P 112,128	P 1,346,848
Bills payable	27,829	67,264	-	95,093
Subordinated notes payable	-	3,046	-	3,046
Other liabilities	-	-	59,983	59,983
	P 1,262,549	P 70,310	P 172,111	P 1,504,970

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Resources:				
Cash and other cash items	P 41,237	P -	P -	P 41,237
Due from BSP	258,416	-	-	258,416
Due from other banks	43,165	-	-	43,165
Loans and other receivable	-	-	1,198,795	1,198,795
Other resources	3,407	-	245	3,652
	P 346,225	P -	P1,199,040	P 1,545,265
Liabilities:				
Deposit liabilities	P 1,366,117	P -	P 78,939	P 1,445,056
Bills payable	27,606	58,112	-	85,718
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	62,076	62,076
	P 1,393,723	P 68,459	P 141,015	P 1,603,197
December 31, 2013				
Resources:				
Cash and other cash items	P 27,736	P -	P -	P 27,736
Due from BSP	384,361	-	-	384,361
Due from other banks	24,655	-	-	24,655
Loans and other receivable	-	-	922,367	922,367
Other resources	2,243	-	98	2,341
	P 438,995	P -	P 922,465	P 1,361,460
Liabilities:				
Deposit liabilities	P 1,208,096	P -	P 110,528	P 1,318,624
Bills payable	27,829	55,927	-	83,756
Subordinated notes payable	-	3,046	-	3,046
Other liabilities	-	-	54,362	54,362
	P 1,235,925	P 58,973	P 164,890	P 1,459,788

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:

(i) 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.

(ii) AFS Securities

The fair value of AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(iii) 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.

(iv) 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 is computed based on the average of ask and bid prices as appearing on Bloomberg.

(v) 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, 2014 and 2013 are shown below.

BDO Unibank Group

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 14,612	P 14,612
Building and improvements		-	7,897	7,897
	P -	**P -**	**P 22,509**	**P 22,509**

	2013			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 13,272	P 13,272
Building and improvements		-	4,977	4,977
	P -	P -	P 18,249	P 18,249

Parent Bank

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 13,406	P 13,406
Building and improvements		-	6,100	6,100
	P -	**P -**	**P 19,506**	**P 19,506**

	2013			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 12,242	P 12,242
Building and improvements		-	3,132	3,132
	P -	P -	P 15,374	P 15,374

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2014 and 2013 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers, which were used by BDO Unibank Group and Parent Bank in determining the fair value of discounted cash flows of the Investment Property.

The fair value of these investment properties were determined based on the following approaches:

(i) 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.

(ii) Fair Value Measurement for Buildings and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2014 and 2013.

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, 2014 and 2013 are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2014			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 31,574	P 22,779	P -	P 8,795
Financial assets at FVTPL				
Currency forwards	1,114	1,114	-	-
Currency swaps	4	4	-	-
Interest rate swaps	32	32	-	-
Loans and receivables				
Receivables from customers	63,986	908	63,078	-
Total	**P 96,710**	**P 24,837**	**P 63,078**	**P 8,795**
Parent Bank				
AFS securities	P 29,604	P 22,779	P -	P 6,825
Financial assets at FVTPL				
Currency swaps	4	4	-	-
Interest rate swaps	26	23	-	3
Loans and receivables				
Receivables from customers	63,079	74	62,988	17
Total	**P 92,713**	**P 22,880**	**P 62,988**	**P 6,845**

	December 31, 2013			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 29,273	P 27,951	P -	P 1,322
Financial assets at FVTPL				
Currency forwards	428	341	-	87
Currency swaps	41	24	-	17
Interest rate swaps	21	21	-	-
Loans and receivables				
Receivables from customers	66,320	541	65,779	-
Total	P 96,083	P 28,878	65,779	P 1,426

	December 31, 2013			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
Parent Bank				
AFS securities	P 27,303	P 27,303	P -	P -
Financial assets at FVTPL				
Currency swaps	41	24	-	17
Interest rate swaps	21	21	-	-
Loans and receivables				
Receivables from customers	65,818	353	65,387	- 78
Total	P 93,183	P 27,701	P 65,387	P 95

The currency forwards and interest rate swaps above relates to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set off and presented at net in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2014			
	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
BDO Unibank Group				
Deposits liabilities	P 70,137	P 63,078	P -	P 7,059
Bills payable	23,977	-	23,977	-
Derivative liabilities				
Currency forwards	1,414	826	288	300
Currency swaps	28	4	-	24
Interest rate swaps	34	32	-	2
Total	**P 95,590**	**P 63,940**	**P 24,265**	**P 7,385**
Parent Bank				
Deposits liabilities	P 70,035	P 62,988	P -	P 7,047
Bills payable	22,853	-	22,853	-
Derivative liabilities				
Currency swaps	28	4	-	24
Interest rate swaps	23	23	-	-
Total	**P 92,939**	**P 63,015**	**P 22,853**	**P 7,071**

	December 31, 2013			
	Financial liabilities	Financial assets available for se-off	Collateral given	Net Amount
BDO Unibank Group				
Deposits liabilities	P 80,384	P 65,779	P -	P 14,605
Bills payable	29,022	-	29,022	-
Derivative liabilities				
Currency forwards	341	341	-	-
Currency swaps	24	24	-	-
Interest rate swaps	124	21	-	103
Total	P 109,895	P 66,165	P 29,022	P 14,708
Parent Bank				
Deposits liabilities	P 79,984	P 65,387	P -	P 14,597
Bills payable	28,304	-	27,734	570
Derivative liabilities				
Currency swaps	24	24	-	-
Interest rate swaps	121	21	-	100
Total	P 108,433	P 65,432	P 27,734	P 15,267

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Cash and other cash items	**P 41,342**	P 27,824	**P 41,237**	P 27,736
Due from BSP:				
Mandatory reserves	**235,432**	194,830	**230,005**	190,850
Other than mandatory reserves	**34,110**	213,553	**28,411**	193,511
	269,542	408,383	**258,416**	384,361
	P 310,884	P 436,207	**P 299,653**	P 412,097

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 2.0% to 2.5% in 2014, 1.9% to 3.5% in 2013, and 3.53% to 4.44% in 2012. Total interest income earned amounted to P2,026, P1,555 and P567 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P1,787, P1,363 and P432 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements (see Note 20).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Foreign banks	**P 43,559**	P 25,539	**P 41,276**	P 23,272
Local banks	**2,062**	1,400	**1,889**	1,383
	P 45,621	P 26,939	**P 43,165**	P 24,655

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
U.S. Dollar	**P 40,663**	P 22,910	**P 38,885**	P 21,678
Other foreign currencies	**4,537**	3,877	**4,207**	2,933
Philippine pesos	**421**	152	**73**	44
	P 45,621	P 26,939	**P 43,165**	P 24,655

Annual interest rates on these deposits range from 0.01% to 3.3% in 2014, 0.01% to 2.5% in 2013 and 0.01% to 3.3% in 2012 in BDO Unibank Group's financial statements and 0.01% to 0.7% in 2014, 0.01% to 1.00% in 2013 and 0.01% to 0.5% in 2012 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 P39, P21 and P30 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P35, P18 and P16 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements (see Note 20).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Financial assets at FVTPL	**P 8,768**	P 9,748	**P 5,313**	P 3,914
AFS securities	**212,742**	218,162	**190,136**	203,833
	P 221,510	P 227,910	**P 195,449**	P 207,747

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Government bonds	**P 4,199**	P 1,984	**P 3,983**	P 1,792
Derivative financial assets	**3,609**	4,458	**1,112**	1,890
Other debt securities	**824**	3,294	**218**	232
	8,632	9,736	**5,313**	3,914
Equity securities – quoted	**136**	12	**-**	-
	P 8,768	P 9,748	**P 5,313**	P 3,914

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 P37, P440 and P178 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P65, (P17) and P269 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements. These are included as part of Trading gain – net under Other Operating Income in the statements of income (see Note 22).

Foreign currency-denominated securities amounted to P2,242 and P2,310 as of December 31, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P1,993 and P2,103 as of December 31, 2014 and 2013, 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 credit default swaps represent commitment of the counterparty to swap the note and deposit with high yielding securities upon the occurrence of the reference event by the reference entity.

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

	2014			2013		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 195,151**	**P 596**	**P 401**	P 155,223	P 1,340	P 1,209
Cross currency swaps	**62,196**	**2,918**	**2,040**	95,978	2,906	2,048
Interest rate swaps	**17,961**	**95**	**109**	15,339	162	154
ROP warrants	**15,021**	**-**	**30**	15,021	-	34
Options	**-**	**-**	**-**	638	50	-
Credit default swaps	**-**	**-**	**-**	266	-	-
	P 290,329	**P 3,609**	**P 2,580**	P 282,465	P 4,458	P 3,445

Parent Bank

	2014			2013		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 195,146**	**P 596**	**P 397**	P 155,050	P 1,336	P 1,208
Cross currency swaps	**16,650**	**425**	**305**	14,568	347	242
ROP warrants	**15,021**	**-**	**30**	15,021	-	34
Interest rate swaps	**11,849**	**91**	**84**	12,947	157	144
Options	**-**	**-**	**-**	638	50	-
	P 238,666	**P 1,112**	**P 816**	P 198,224	P 1,890	P 1,628

9.2 AFS Securities

AFS securities consist of the following:

	Note	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Government debt securities		**P 141,578**	P 147,945	**P 127,866**	P 142,207
Other debt securities:					
Quoted		**62,291**	60,238	**56,908**	55,295
Not quoted		**243**	399	**243**	243
Equity securities:					
Quoted		**9,993**	10,946	**6,460**	7,351
Not quoted		**812**	697	**574**	530
		214,917	220,225	**192,051**	205,626
Allowance for impairment	14	**(2,175)**	(2,063)	**(1,915)**	(1,793)
		P 212,742	P 218,162	**P 190,136**	P 203,833

As to currency, this account is composed of the following:

	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Foreign currencies	**P 154,132**	P 182,777	**P 147,136**	P 177,592
Philippine peso	**58,610**	35,385	**43,000**	26,241
	P 212,742	P 218,162	**P 190,136**	P 203,833

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0% to 11.6% in 2014 and 0% to 13.0% in both 2013 and 2012 for BDO Unibank Group's financial statements while 0% to 11.6% in 2014, 0% to 11.8% in 2013 and 0% to 13.0% in 2012 in the Parent Bank's financial statements.

As of December 31, 2014 and 2013, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,027 and P1,019, respectively, in the Parent Bank financial statements. These investments are fully provided with allowance for impairment as of December 31, 2014 and 2013.

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

The fair values of government debt and quoted equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

For unquoted AFS securities, the fair value is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows. Accordingly, unquoted AFS securities are carried at cost.

Changes in AFS securities are presented below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance at beginning of year	**P 218,162**	P 131,154	**P 203,833**	P 123,633
Disposals	**(380,568)**	(616,356)	**(370,443)**	(598,722)
Additions	**377,961**	606,540	**360,013**	589,025
Unrealized gains (losses)	**(2,440)**	(12,410)	**(2,846)**	(12,334)
Reclassification from AFS securities to Loans and receivables	**(1,380)**	(1,000)	**(1,380)**	(1,000)
Foreign currency revaluation	**1,119**	13,493	**1,081**	13,267
Impairment recovery (loss)	**(112)**	1,111	**(122)**	1,124
Reclassification from HTM investments to AFS Securities	**-**	95,860	**-**	88,840
Reclassification from AFS securities to Equity investments	**-**	(230)	**-**	-
Balance at end of year	**P 212,742**	P 218,162	**P 190,136**	P 203,833

Government securities with an aggregate principal amount of P29,604 and P27,303 as of December 31, 2014 and 2013 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 29). These government securities were included in the reclassification from HTM investments in 2013 (see Note 9.3).

As mentioned in Note 25, certain government debt securities are deposited with the BSP.

9.3 HTM Investments

In 2013, the BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39.

During 2013, the BDO Unibank Group and the Parent Bank disposed of previously classified HTM investments amounting to P47,182 and P40,413, respectively. The related trading gains on disposal recognized by BDO Unibank Group and the Parent Bank amounted to P7,907 and P7,425, respectively, and are presented as part of Trading gains – net under Other Operating Income in the 2013 statement of income. As of December 31, 2014 and 2013, the market value of the remaining reclassified investments amounted to P20,430 and P56,839, respectively, for BDO Unibank Group and P20,430 and P56,334, respectively, for the Parent Bank.

Changes in the HTM investment account for the year ended December 31, 2013 are summarized below.

	BDO Unibank Group	Parent Bank
Balance at beginning of year	P 96,963	P 89,606
Reclassification to AFS securities	(95,860)	(88,840)
Maturities	(4,368)	(4,368)
Additions	3,586	3,586
Foreign currency revaluation	(321)	16
Balance at end of year	P -	P -

9.4 Reclassification of Investment Securities

BDO Unibank Group recognized the deterioration of the world's financial markets that occurred in the third quarter of 2008. The enormity and extent of the global credit crisis was crystallized by the substantial government programs instituted by major economies in response to the crisis, including temporary liquidity facilities, outright purchase of commercial papers and mortgaged-backed securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

In 2008, BDO Unibank Group chose to avail of the regulatory relief on specific financial assets granted by the BSP under the governing provisions of Circular No. 628, which permitted the reclassification of certain financial assets to help banks cope with the adverse impact of the global financial crisis.

Accordingly, BDO Unibank Group reclassified in 2008 financial assets from FVTPL to HTM amounting to P6,297 and from AFS to HTM amounting to P25,540 (BDO Unibank Group) and P22,474 (Parent Bank). In 2013, BDO Unibank Group disposed all of its remaining financial assets at FVTPL reclassified to HTM. Moreover, as discussed in Note 9.3, BDO Unibank Group decided to reclassify its entire HTM investments to AFS securities, which include the financial assets previously coming from AFS securities. As of December 31, 2014 and 2013, the balance of such financial assets is shown below:

	Balances at			
	December 31, 2014		December 31,2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
BDO Unibank Group	P 222	P 228	P 6,129	P 6,511
Parent Bank	P 222	P 228	P 6,129	P 6,511

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Receivables from customers:					
Loans and discounts	24	**P 976,724**	P 821,338	**P 952,741**	P 805,335
Customers' liabilities under letters of credit and trust receipts		**51,547**	37,259	**51,547**	37,259
Bills purchased		**26,793**	21,493	**26,793**	21,493
Others		**35,985**	34,068	**35,985**	34,068
		1,091,049	914,158	**1,067,066**	898,155
Unearned interests or discounts		**(1,680)**	(2,673)	**(486)**	(1,438)
Allowance for impairment	14	**(26,752)**	(25,189)	**(26,226)**	(24,763)
		(28,432)	(27,862)	**(26,712)**	(26,201)
		1,062,617	886,296	**1,040,354**	871,954
Other receivables:					
Interbank loans receivables		**39,215**	19,932	**39,215**	19,932
SPURRA		**86,173**	8,407	**86,173**	8,407
Accounts receivable	24, 26	**17,840**	6,685	**9,554**	6,278
UDSCL		**6,671**	170	**6,671**	170
Sales contract receivables		**1,724**	2,363	**1,605**	2,008
Others		**110**	91	**-**	-
		151,733	37,648	**143,218**	36,795
Allowance for impairment	14	**(1,420)**	(1,391)	**(1,388)**	(1,356)
		150,313	36,257	**141,830**	35,439
		P 1,212,930	P 922,553	**P 1,182,184**	P 907,393

Non-performing loans included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2014 and 2013 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 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Non-performing loans (NPL)*	**P 16,298**	P 17,511	**P 15,898**	P 17,239
Allowance for impairment	**(15,010)**	(16,542)	**(14,777)**	(16,320)
	P 1,288	P 969	**P 1,121**	P 919

* *These loans are inclusive of the Receivable from Special Purpose Vehicles (SPVs) presented under Other Resources in the BDO Unibank Group and Parent Bank financial statements (see Note 13).*

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	
	2014	2013	**2014**	2013
Financial and insurance activities	**P 181,628**	P 138,476	**P 179,415**	P 137,411
Wholesale and retail trade	**161,425**	145,088	**158,622**	142,767
Manufacturing	**137,676**	115,116	**134,201**	111,463
Real estate activities	**114,534**	119,910	**112,264**	117,313
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**113,049**	108,598	**112,172**	108,218
Electricity, gas, steam and air-conditioning supply	**103,584**	69,086	**101,667**	68,312
Transportation and storage	**50,267**	34,278	**47,566**	31,187
Accommodation and food service activities	**32,834**	18,492	**32,827**	18,489
Information and communication	**25,462**	28,812	**24,897**	28,278
Construction	**23,196**	16,067	**19,955**	13,315
Arts, entertainment and recreation	**17,613**	3,437	**15,075**	3,356
Professional, scientific and technical services	**15,128**	18,171	**15,010**	18,113
Water supply, sewerage, waste management and remediation activities	**13,987**	14,536	**13,411**	13,939
Agriculture, forestry and fishing	**9,124**	9,643	**9,016**	9,531
Human health and social work activities	**9,316**	6,156	**8,901**	5,652
Mining and quarrying	**6,669**	6,846	**4,542**	4,464
Administrative and support services	**4,877**	2,534	**4,469**	2,219
Education	**1,827**	1,338	**1,794**	1,311
Public administrative and defense; compulsory social security	**322**	37	**303**	28
Activities of extraterritorial organizations and bodies	**53**	-	**53**	-
Other service activities	**66,798**	54,864	**70,420**	61,351
	P 1,089,369	P 911,485	**P 1,066,580**	P 896,717

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	
	2014	2013	**2014**	2013
Secured:				
Real estate mortgage	**P 170,485**	P 149,332	**P 169,204**	P 148,133
Chattel mortgage	**81,889**	78,101	**67,048**	63,663
Other securities	**151,066**	155,290	**144,978**	152,348
	403,440	382,723	**381,230**	364,144
Unsecured	**685,929**	528,762	**685,350**	532,573
	P 1,089,369	P 911,485	**P 1,066,580**	P 896,717

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	
	2014	2013	**2014**	2013
Variable interest rates	**P 812,322**	P 645,124	**P 800,316**	P 632,450
Fixed interest rates	**277,047**	266,361	**266,264**	264,267
	P 1,089,369	P 911,485	**P 1,066,580**	P 896,717

Loans and receivables bear annual interest rates of 0% (e.g., non-performing loans and zero percent credit card installment program) to 4.1%, 4.0% and 3.6% per month in 2014, 2013 and 2012, respectively.

BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P908 and P91, respectively, as of December 31, 2014 and P541 and P431, respectively, as of December 31, 2013 are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 16).

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 2014 and 2013 are shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,390	P 3,996	P 15,415	P 37,256
Accumulated depreciation and amortization	-	-	(3,610)	(2,671)	(9,450)	(15,731)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	**P 5,179**	**P 4,244**	**P 4,380**	**P 1,325**	**P 5,965**	**P 21,093**
December 31, 2013						
Cost	P 5,114	P 2,382	P 7,865	P 3,464	P 15,471	P 34,296
Accumulated depreciation and amortization	-	-	(3,185)	(2,288)	(10,552)	(16,025)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
January 1, 2013						
Cost	P 5,132	P 1,509	P 7,397	P 3,060	P 13,844	P 30,942
Accumulated depreciation and amortization	-	-	(2,819)	(1,960)	(9,773)	(14,552)
Net carrying amount	P 5,132	P 1,509	P 4,578	P 1,100	P 4,071	P 16,390

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Parent Bank						
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,332	P 3,789	P 12,188	P 33,764
Accumulated depreciation and amortization	-	-	(3,563)	(2,528)	(8,324)	(14,415)
Allowance for Impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	**P 5,179**	**P 4,244**	**P 4,369**	**P 1,261**	**P 3,864**	**P 18,917**
December 31, 2013						
Cost	P 5,114	P 2,382	P 7,806	P 3,273	P 13,107	P 31,682
Accumulated depreciation and amortization	-	-	(3,140)	(2,164)	(9,690)	(14,994)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325
January 1, 2013						
Cost	P 5,132	P 1,509	P 7,339	P 2,898	P 12,492	P 29,370
Accumulated depreciation and amortization	-	-	(2,778)	(1,860)	(9,116)	(13,754)
Net carrying amount	P 5,132	P 1,509	P 4,561	P 1,038	P 3,376	P 15,616

A reconciliation of the carrying amounts, at the beginning and end of 2014 and 2013, of premises, furniture, fixtures and equipment is shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
Additions	99	1,856	466	565	2,984	5,970
Disposals	(2)	-	-	(5)	(117)	(124)
Reclassifications		6	(4)	3	1	6
Depreciation and amortization changes for the year	-	-	(362)	(414)	(1,822)	(2,598)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation and amortization	**P 5,179**	**P 4,244**	**P 4,380**	**P 1,325**	**P 5,965**	**P 21,093**
Balance at January 1, 2013 net of accumulated depreciation and amortization	P 5,132	P 1,509	P 4,578	P 1,100	P 4,071	P 16,390
Additions	93	1,072	245	455	2,456	4,321
Disposals	-	-	(3)	(8)	(25)	(36)
Reclassifications	15	(199)	211	-	43	70
Depreciation and amortization charges for the year	-	-	(351)	(371)	(1,626)	(2,348)
Impairment	(29)	-	(334)	-	-	(363)
Reversal of appraisal increment	(126)	-	-	-	-	(126)
Balance at December 31, 2013, net of accumulated depreciation, amortization and impairment	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Parent Bank						
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325
Additions	99	1,856	466	535	1,756	4,712
Disposals	(2)	-	-	(4)	(10)	(16)
Reclassifications	-	6	(4)	4	(1)	5
Depreciation and amortization charges for the year	-	-	(359)	(383)	(1,298)	(2,040)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 5,179	P 4,244	P 4,369	P 1,261	P 3,864	P 18,917
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 5,132	P 1,509	P 4,561	P 1,038	P 3,376	P 15,616
Additions	93	1,072	245	427	1,306	3,143
Disposals	-	-	(3)	(9)	(12)	(24)
Reclassifications	15	(199)	211	-	43	70
Depreciation and amortization charges for the year	-	-	(348)	(347)	(1,296)	(1,991)
Impairment	(29)	-	(334)	-	-	(363)
Reversal of appraisal increment	(126)		-	-	-	(126)
Balance at December 31, 2013, net of accumulated depreciation, amortization and impairment	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2014 and 2013, BDO Unibank Group has complied with this requirement.

In 2014 and 2013, impairment losses amounting to P69 and P363, respectively, was recognized by BDO Unibank Group and the Parent Bank to write-down to recoverable amount certain parcels of land and buildings. The recoverable amount of Land and Building as of December 31, 2014 and 2013, respectively, was based on the appraised values of such asset.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2014 and 2013 are still being used in operations with acquisition costs amounting to P5,068 and P4,284, respectively for BDO Unibank Group and P4,959 and P4,096, respectively, for Parent Bank.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P228 and P76 in 2014, P214 and P77 in 2013 and P74 and P67 in 2012 and are presented as part of Income from assets sold or exchanged under Other Operating Income in BDO Unibank Group and Parent Bank financial statements, respectively (see Note 22). Direct expenses incurred from these properties amounted to P3 and P3 in 2014, P10 and P4 in 2013 and P15 and P5 in 2012 in BDO Unibank Group and Parent Bank financial statements, respectively.

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2014 and 2013 are shown below.

	Land	Buildings	Total
BDO Unibank Group			
December 31, 2014			
Cost	P 10,484	P 8,139	P 18,623
Accumulated depreciation	-	(2,339)	(2,339)
Allowance for impairment (see Note 14)	(2,291)	(132)	(2,423)
Net carrying amount	**P 8,193**	**P 5,668**	**P 13,861**
December 31, 2013			
Cost	P 8,966	P 5,829	P 14,795
Accumulated depreciation	-	(2,048)	(2,048)
Allowance for impairment (see Note 14)	(2,287)	(79)	(2,366)
Net carrying amount	P 6,679	P 3,702	P 10,381
January 1, 2013			
Cost	P 9,694	P 4,040	P 13,734
Accumulated depreciation	-	(2,017)	(2,017)
Allowance for impairment (see Note 14)	(2,542)	(86)	(2,628)
Net carrying amount	P 7,152	P 1,937	P 9,089
Parent Bank			
December 31, 2014			
Cost	P 9,217	P 6,099	P 15,316
Accumulated depreciation	-	(2,140)	(2,140)
Allowance for impairment (see Note 14)	(2,230)	(88)	(2,318)
Net carrying amount	**P 6,987**	**P 3,871**	**P 10,858**
December 31, 2013			
Cost	P 7,882	P 3,825	P 11,707
Accumulated depreciation	-	(1,921)	(1,921)
Allowance for impairment (see Note 14)	(2,233)	(35)	(2,268)
Net carrying amount	P 5,649	P 1,869	P 7,518

	Land		Buildings		Total	
Parent Bank						
January 1, 2013						
Cost	P	9,229	P	3,817	P	13,046
Accumulated depreciation		-	(	1,914)	(	1,914)
Allowance for impairment (see Note 14)	(	2,498)	(	25)	(	2,523)
Net carrying amount	P	6,731	P	1,878	P	8,609

A reconciliation of the carrying amounts, at the beginning and end of 2014 and 2013, of investment properties is shown below.

	Land		Buildings		Total	
BDO Unibank Group						
Balance at January 1, 2014, net of accumulated depreciation and impairment	P	6,679	P	3,702	P	10,381
Additions		1,370		1,178		2,548
Disposals	(	1,020)	(	151)	(	1,171)
Reclassifications		1,164		1,390		2,554
Depreciation for the year		-	(	451)	(	451)
Balance at December 31, 2014, net of accumulated depreciation and impairment	**P**	**8,193**	**P**	**5,668**	**P**	**13,861**
Balance at January 1, 2013, net of accumulated depreciation and impairment	P	7,152	P	1,937	P	9,089
Additions		953		1,872		2,825
Disposals	(	1,714)	(	97)	(	1,811)
Reclassifications		296		235		531
Depreciation for the year		-	(	245)	(	245)
Impairment	(	8)		-	(	8)
Balance at December 31, 2013, net of accumulated depreciation and impairment	P	6,679	P	3,702	P	10,381
Parent Bank						
Balance at January 1, 2014, net of accumulated depreciation and impairment	P	5,649	P	1,869	P	7,518
Additions		1,366		1,177		2,543
Disposals	(	1,011)	(	143)	(	1,154)
Reclassification		983		1,366		2,349
Depreciation for the year		-	(	398)	(	398)
Balance at December 31, 2014, net of accumulated depreciation and impairment	**P**	**6,987**	**P**	**3,871**	**P**	**10,858**

	Land	Buildings	Total
Parent Bank			
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 6,731	P 1,878	P 8,609
Additions	116	69	185
Disposals	(1,691)	(91)	(1,782)
Reclassification	493	240	733
Depreciation for the year	-	(227)	(227)
Balance at December 31, 2013, net of accumulated depreciation and impairment	P 5,649	P 1,869	P 7,518

The fair value of investment properties as of December 31, 2014 and 2013, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P22,509 and P18,249, respectively, for BDO Unibank Group accounts and P19,506 and P15,374, respectively, for the Parent Bank accounts. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

In 2013, BDO Unibank Group recognized impairment losses of P8 to write-down certain investment properties to its recoverable amount and is presented as part of Impairment Losses in the 2013 statement of income (nil in 2014). The recoverable amount of such assets as of December 31, 2013 was based on value in use computed through discounted cash flows method at an effective rate of 1.48% and 1.50% in 2014 and 2013, 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, 2014 and 2013, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		**Parent Bank**	
	2014	2013	**2014**	2013
Investment properties	**P 9,865**	P 8,219	**P 9,554**	P 8,091
AFS securities	**1,424**	1,406	**1,424**	1,406
Non-current assets held for sale	**501**	2,490	**473**	2,161
Other resources – others	**-**	3	**-**	-
	P 11,790	P 12,118	**P 11,451**	P 11,658

13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Deferred tax assets – net	27.1	**P 6,033**	P 5,941	**P 6,213**	P 6,114
Equity investments	13.1	**5,891**	5,398	**17,027**	19,446
Deposits under escrow	13.2	**3,957**	3,957	**3,957**	3,957
Foreign currency notes and coins on hand		**3,406**	2,242	**3,406**	2,242
Branch licenses	13.3, 26.2	**3,020**	100	**3,020**	100
Receivables from SPVs	13.4	**2,820**	3,440	**2,820**	3,440
Real properties for development and sale		**2,224**	2,287	**-**	-
Goodwill	13.3, 26.1	**1,482**	1,482	**1,391**	1,391
Retirement benefit asset	23.2	**1,211**	815	**1,184**	794
Computer software – net	13.6	**779**	451	**688**	440
Customer list	26.4	**529**	-	**529**	-
Non-current assets held for sale	13.5	**501**	2,490	**473**	2,161
Prepaid documentary stamps		**460**	320	**438**	300
Margin deposits		**289**	2	**1**	1
Dividend receivable		**283**	169	**245**	97
Returned checks and other cash items		**223**	12	**223**	12
Interoffice float items – net		**-**	253	**-**	252
Others	13.6	**10,563**	8,216	**9,752**	7,512
		43,671	37,575	**51,367**	48,259
Allowance for impairment	14	**(5,921)**	(6,695)	**(8,520)**	(9,213)
		P 37,750	P 30,880	**P 42,847**	P 39,046

13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Philippine Subsidiaries					
BDO Private	100%	**P -**	P -	**P 2,579**	P 2,579
BDOSHI	100%	**-**	-	**5,684**	8,184
BDO Leasing	89%	**-**	-	**1,878**	1,878
BDO Savings	100%	**-**	-	**877**	-
BDO Elite	99%	**-**	-	**700**	1,500
BDO Capital	100%	**-**	-	**300**	300
Equimark	60%	**-**	-	**45**	45
PCIB Securities, Inc.	100%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
PCI Insurance	100%	**-**	-	**8**	8
MDB Land, Inc.	100%	**-**	-	**-**	-
Balance carried forward		**P -**	P -	**P 12,155**	P 14,578

	% Interest Held	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Balance brought forward		**P -**	P -	**P 12,155**	P 14,578
Foreign Subsidiaries					
BDORO Europe Ltd.	100%	**-**	-	**169**	169
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
BDO Remit (Japan) Ltd.	100%	**-**	-	**4**	-
PCIB Europe S.p.A.	100%	**-**	-	**1**	1
Express Padala Frankfurt GmbH	100%	**-**	-	**1**	1
BDO Remit (Canada) Ltd.	100%	**-**	-	**-**	-
		-	-	**229**	225
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
Manila North Tollways Corporation (MNTC)	12%	**1,405**	1,405	**1,405**	1,405
Generali Pilipinas Holdings, Inc. (Generali)	40%	**1,235**	1,235	**1,168**	1,168
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33%	**170**	170	**170**	170
Others	*	**10**	10	**10**	10
		4,710	4,710	**4,643**	4,643
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**688**	297	**-**	-
Equity in net profit		**652**	606	**-**	-
Equity in other comprehensive income		**269**	-	**-**	-
Dividends		**(428)**	(215)	**-**	-
Balance at end of year		**1,181**	688	**-**	-
Net investments in associates		**5,891**	5,398	**4,643**	4,643
		5,891	5,398	**17,027**	19,446
Allowance for impairment		**(559)**	(559)	**(3,749)**	(3,749)
		P 5,332	P 4,839	**P 13,278**	P 15,697

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2014 and 2013, except for Generali, which is at 40% at BDO Unibank Group and 38% at the Parent Bank, and for BDO Leasing which is at 89% at BDO Unibank Group and 87% at the Parent Bank.

The fair value of BDO Leasing amounts to P4,117 and P3,781 in 2014 and 2013, respectively, which have been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
Express Padala Frankfurt GmbH	Germany
PCIB Europe S.p.A	Italy
BDORO Europe Ltd.	United Kingdom
BDO Remit (Italia) S.p.A	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited	Hongkong
BDO Remit (Macau) Ltd.	Macau

On May 30, 2012, BDORO Europe Ltd. (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 United Kingdom (UK) and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO has applied for a banking license in the UK, but the approval is still pending as of December 31, 2014.

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. As of December 31, 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established.

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company engaged primarily in the leasing business. Gain from acquisition amounted to P43 and is presented as part of Others under Other Operating Income in the 2014 statements of income.

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 26.1).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan. BDO Remit (Japan) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. The payment of the subscribed shares amounting to CND 500,000 will be paid by the Parent Bank in 2015.

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant non-controlling interest (NCI):

Name	Proportion of ownership interest and voting rights held by NCI 2014	2013	Profit allocated to NCI 2014	2013	Accumulated NCI 2014	2013
BDO Leasing	**11.46%**	11.46%	**P 57**	P 48	**P 571**	P 547

Dividends amounting to P37 were paid to the NCI for both 2014 and 2013.

Summarized consolidated financial information of BDO Leasing, before intragroup eliminations, follows:

	2014	2013
Statements of financial position:		
Total resources	**P 29,239**	P 25,352
Total liabilities	**24,255**	20,580
Equity attributable to owners of the parent	**4,413**	4,225
Non-controlling interest	**571**	547
Statements of comprehensive income:		
Total interest income	**1,448**	1,292
Total other operating income	**827**	615
Profit attributable to owners of the parent	**445**	372
Profit attributable to NCI	**57**	48
Profit	**502**	420
Total comprehensive income attributable to owners of the parent	**P 477**	P 449
Total comprehensive income attributable to NCI	**62**	58
Total comprehensive income	**P 539**	P 507
Statements of cash flows:		
Net cash used in operating activities	**(P 948)**	(P 2,569)
Net cash used in investing activities	**(1,664)**	(794)
Net cash from financing activities	**2,892**	3,432
Net cash inflow	**P 280**	P 69

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2014, 2013 and 2012:

	MNTC	**Generali**	**SM Keppel**	**Others**	**Total**
December 31, 2014 (Unaudited)					
Assets	**P 28,725**	**P 19,144**	**P 2,484**	**P 2,204**	**P 52,557**
Liabilities	**21,106**	**15,411**	**231**	**525**	**37,273**
Equity	**7,619**	**3,733**	**2,253**	**1,679**	**15,284**
Revenues	**7,708**	**5,982**	**184**	**669**	**14,543**
Net profit	**2,564**	**852**	**16**	**99**	**3,531**

	MNTC		Generali		SM Keppel		Others		Total
December 31, 2013 (Audited)									
Assets	P	20,788	P	15,844	P	2,464	P	2,024	P	41,120
Liabilities		13,589		13,550		228		416		27,783
Equity		7,199		2,294		2,236		1,608		13,337
Revenues		7,640		5,129		267		618		13,654
Net profit		2,378		686		71		80		3,215
December 31, 2012 (Audited)										
Assets	P	19,037	P	13,216	P	2,417	P	2,054	P	36,724
Liabilities		12,144		10,712		252		468		23,576
Equity		6,892		2,504		2,166		1,586		13,148
Revenues		7,196		3,795		348		986		12,325
Net profit		1,959		333		118		183		2,593

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by BDO Unibank Group in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by BDO Unibank Group with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement (MOA). Deposits under escrow earned a return on investment of 1.3% and 2.6% in 2014 and 2013, respectively. As of December 31, 2014 and 2013, BDO Unibank Group and the Parent Bank provided an allowance for impairment both amounting to P400.

13.3 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition including branch licenses and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc. (RBSJI), CBN Grupo and BDO Savings, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013 and 2014, respectively (see Note 26).

The Parent Bank recognized impairment loss of P62, P230 and P131 in 2014, 2013 and 2012, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The recoverable amount as of December 31, 2014 and 2013 is based on the value in use computed through discounted cash flows method at an effective interest of 3.93% and 4.79%, which amounted to P2,308 and P2,414, respectively. The Parent Bank provided impairment losses on its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the consolidated financial statements, except those related to the Parent Bank.

13.4 Receivables from SPVs

Receivables from SPVs represent the amount due from sale of certain non-performing assets to SPVs. In 2005, the former EPCIB (now part of BDO Unibank Group) sold certain non-performing assets with book value of P15,069 to Philippine Investment One, Philippine Investment Two and Cameron Granville Asset Management, Inc. (CGAM) for a consideration of P4,134. Cash received from the SPVs amounted to P798 in 2005 and the balance of P3,336, through issuance of SPV Notes, shall be paid based on a cash flow waterfall arrangement and interest rate of 20% and 50% per annum amounting to P2,776 and P560, respectively. Also, in 2005, the former Equitable Savings Bank, Inc. (ESB) entered into sale and purchase agreements with CGAM and LNC (SPV-AMC) Corporation (LNC) for the sale of the former ESB's loans to CGAM for P621 and for the sale of its investment properties to LNC for P98. The former ESB received SPV Notes amounting to P60 for loans from CGAM and P39 for investment properties from LNC, in addition to cash received amounting to P23 from CGAM and P4 from LNC.

Full allowance for impairment on the receivables from SPVs amounted to P2,820 and P3,440 as of December 31, 2014 and 2013, respectively. In 2014, the Parent Bank wrote-off receivable form SPVs amounting to P620 since the management has evaluated that those receivables are no longer recoverable.

13.5 Non-current Assets Held for sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale and with potential buyer at the end of the reporting period. Impairment loss recognized amounted to P34 and P155 in 2013 and 2012 in BDO Unibank Group (nil in 2014), respectively, and P130 in 2012 in the Parent Bank (nil in 2014 and 2013).

13.6 Others

Amortization expense on computer software licenses amounted to P206, P135 and P376 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P196, P128 and P368 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 22).

Depreciation expense on certain assets amounting to P7, P32 and P21 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P6, P9 and P20 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements, and are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 22).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Balance at beginning of year:					
AFS securities	9.2	**P 2,063**	P 2,913	**P 1,793**	P 1,677
HTM investments	9.3	**-**	262	**-**	240
Loans and other receivables	10	**26,580**	29,142	**26,119**	28,798
Bank premises	11	**363**	-	**363**	-
Investment properties	12	**2,366**	2,628	**2,268**	2,523
Other resources	13	**6,695**	8,076	**9,213**	11,343
		38,067	43,021	**39,756**	44,581
Impairment losses - net		**5,114**	7,001	**5,014**	6,216
Business combination		**276**	-	**237**	-
Adjustments		**(34)**	(14)	**-**	-
Write-offs		**(4,222)**	(11,057)	**(4,222)**	(11,056)
Reversals		**(93)**	(1,129)	**-**	(221)
Foreign currency revaluation		**15**	245	**14**	236
Balance at end of year:					
AFS securities	9.2	**2,175**	2,063	**1,915**	1,793
Loans and other receivables	10	**28,172**	26,580	**27,614**	26,119
Bank premises	11	**432**	363	**432**	363
Investment properties	12	**2,423**	2,366	**2,318**	2,268
Other resources	13	**5,921**	6,695	**8,520**	9,213
		P 39,123	P 38,067	**P 40,799**	P 39,756

Total impairment losses on financial assets amounted to P5,052, P5,968 and P4,619 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P4,952, P5,850 and P4,557 in 2014, 2013 and 2012, respectively, in the Parent Bank financial statements.

Total impairment losses on non-financial assets amounted to P62, P1,033 and P322 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P62, P366 and P293 in 2014, 2013 and 2012, respectively, in the Parent Bank financial statements.

Total allowance for impairment transferred upon consolidation of BDO Savings and the asset acquisition of The Real Bank, Inc. amounted to P79 and P197, respectively, for BDO Unibank Group's 2014 financial statements and P40 and P197, respectively, in the Parent Bank's 2014 financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Demand	**P 85,807**	P 79,601	**P 60,384**	P 54,178
Savings	**872,976**	695,243	**874,731**	696,691
Time	**533,499**	570,489	**528,974**	566,263
	P 1,492,282	P 1,345,333	**P 1,464,089**	P 1,317,132

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Due to other banks:				
Demand	**P 1,126**	P 1,030	**P 1,126**	P 1,029
Savings	**4,561**	2,803	**4,561**	2,803
Time	**5,626**	4,234	**5,626**	4,234
	11,313	8,067	**11,313**	8,066
Due to customers:				
Demand	**84,681**	78,571	**59,258**	53,149
Savings	**868,415**	692,440	**870,170**	693,888
Time	**527,873**	566,255	**523,348**	562,029
	1,480,969	1,337,266	**1,452,776**	1,309,066
	P 1,492,282	P 1,345,333	**P 1,464,089**	P 1,317,132

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Philippine pesos	**P 1,200,473**	P 1,108,844	**P 1,179,436**	P 1,087,143
Foreign currencies	**291,809**	236,489	**284,653**	229,989
	P 1,492,282	P 1,345,333	**P 1,464,089**	P 1,317,132

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Less than one year	**P 1,381,664**	P 1,234,720	**P 1,357,498**	P 1,208,096
One to five years	**47,868**	61,017	**43,841**	59,440
Beyond five years	**62,750**	49,596	**62,750**	49,596
	P 1,492,282	P 1,345,333	**P 1,464,089**	P 1,317,132

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 2014, 0.0% to 5.3% in 2013 and 0.0% to 6.5% in 2012. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates.

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as at December 31, 2014 and 2013 as follows:

BSP Approval	Effective Rate	Outstanding Balance	Issue Date	Maturity Date
October 25, 2013	3.125%	P 5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	5,000	September 12, 2013	September 12, 2020
January 31, 2013	3.80%	5,000	March 25, 2013	September 25, 2018
May 3, 2012	5.25%	5,000	October 15, 2012	October 15, 2019
		P 20,000		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective May 30, 2014, Philippine Peso deposit liabilities of BDO Unibank Group are subject to a reserve requirement of 20%, in compliance with the BSP Circular No. 832 issued on May 27, 2014.

16. BILLS PAYABLE

This account is composed of the following borrowings from:

	Note	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Foreign banks		**P 29,857**	P 19,044	**P 29,857**	P 17,999
Senior notes	16.1	**27,111**	26,890	**27,111**	26,890
Deposit substitutes		**22,779**	27,951	**22,779**	27,951
Local banks		**3,550**	4,578	**-**	3,334
BSP		**51**	300	**51**	300
Others		**17,013**	15,480	**5,271**	6,353
		P 100,361	P 94,243	**P 85,069**	P 82,827

The breakdown of this account as to currency follows:

	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Foreign currencies	**P 85,000**	P 83,756	**P 85,000**	P 82,711
Philippine pesos	**15,361**	10,487	**69**	116
	P 100,361	P 94,243	**P 85,069**	P 82,827

The maturity profile of this account is presented below.

	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Less than one year	**P 52,142**	P 61,981	**P 37,470**	P 50,682
One to five years	**31,695**	1,857	**31,075**	1,740
Beyond five years	**16,524**	30,405	**16,524**	30,405
	P 100,361	P 94,243	**P 85,069**	P 82,827

Bills payable bear annual interest rates of 0.2% to 12.0% in 2014, 2013 and 2012. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9 and 10).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 21):

	BDO Unibank Group		
	2014	2013	2012
Senior notes	**P 1,139**	P 1,086	P 1,008
Foreign banks	**250**	142	142
Local banks	**97**	130	39
Deposit substitutes	**29**	70	153
BSP	**1**	26	25
PDIC	**-**	-	169
Others	**402**	288	473
	P 1,918	P 1,742	P 2,009

	Parent Bank		
	2014	2013	2012
Senior notes	**P 1,139**	P 1,086	P 1,008
Foreign banks	**250**	140	142
Deposit substitutes	**29**	70	149
Local banks	**8**	15	-
BSP	**1**	26	25
PDIC	**-**	-	169
Others	**117**	114	150
	P 1,544	P 1,451	P 1,643

16.1 Senior Notes

On February 16, 2012, the Parent Bank issued unsecured Senior Notes with a face value of US$300 million at a price of 99.448 or a total price of US$298 million. The Senior Notes, which will mature on February 16, 2017, bear a coupon rate of 4.5% per annum, with effective yield of 4.625% per annum, and is payable semi-annually every February 16 and August 16 since August 16, 2012. The net proceeds from the issuance of Senior Notes are intended for general funding and relending purposes. As of December 31, 2014 and 2013, the related Senior Notes had a carrying amount of P13,609 and P13,495, respectively.

On October 22, 2010, the Parent Bank issued unsecured Senior Notes with a face value of US$300 million at a price of 99.632 or a total price of US$299 million. The Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and is payable semi-annually every April 22 and October 22 since 2011. The net proceeds from the issuance are intended to support business expansion plans, and general banking and relending activities. As of December 31, 2014 and 2013, the related Senior Notes had a carrying amount of P13,502 and P13,395, respectively.

Interest on Senior Notes amounted to P1,139 in 2014, P1,086 in 2013 and P1,008 in 2012 and is included as part of Interest expense on bills payable and other liabilities under Interest Expense account (see Note 21).

17. SUBORDINATED NOTES PAYABLE

Subordinated notes payable by the Parent Bank consist of the following as of December 31:

	Coupon Interest	Principal Amount	Outstanding Balance 2014	Outstanding Balance 2013	Issue Date	Maturity Date	Redemption Date
Tier 2 Series 1	7.00%	P 10,000	**P -**	P -	November 21, 2007	November 21, 2017	November 21, 2012
Tier 2 Series 2	8.50%	10,000	**-**	-	May 30, 2008	May 30, 2018	May 31, 2013
Tier 2 Series 3	7.50%	3,000	**-**	3,007	March 20, 2009	March 20, 2019	March 21, 2014
Tier 2 Series 4	6.50%	8,500	**-**	-	June 27, 2011	September 27, 2021	September 27, 2013
Tier 2 Series 5	6.38%	6,500	**-**	-	October 7, 2011	January 7, 2022	October 7, 2013
Tier 2 Series 2014-1	5.19%	10,000	**10,030**	-	December 10, 2014	March 10, 2025	-
		P 48,000	**P 10,030**	P 3,007			

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The redemption of Series 1, Series 2 and Series 3 Notes was approved by the BSP on September 27, 2012, April 4, 2013 and November 28, 2013, respectively. The early redemption of the Series 4 and Series 5 Notes was approved by the BSP on July 11, 2013.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P80, P1,305 and P2,667 in 2014, 2013 and 2012, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 21).

18. OTHER LIABILITIES

Other liabilities consist of the following:

	Note	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Bills purchased-contra		**P 26,670**	P 21,386	**P 26,670**	P 21,386
Accounts payable		**19,504**	10,066	**10,758**	9,076
Manager's checks		**11,620**	9,984	**11,570**	9,971
Accrued expenses		**7,473**	7,945	**7,012**	7,594
Lease deposits		**4,271**	3,888	**74**	68
Derivatives with negative fair values	9.1	**2,580**	3,445	**816**	1,628
Outstanding acceptances payable		**1,781**	1,572	**1,781**	1,572
Withholding taxes payable		**1,347**	1,144	**1,281**	1,091
Due to principal		**415**	269	**-**	-
Capitalized interest and other charges		**403**	386	**371**	364
Due to BSP and Treasurer of the Philippines		**69**	89	**65**	86
Unearned income		**1**	324	**-**	324
Others		**5,173**	5,343	**4,960**	4,947
		P 81,307	P 65,841	**P 65,358**	P 58,107

The liability for unredeemed reward points amounting to P2,803 and P2,401 as of December 31, 2014 and 2013, 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).

Others include margin deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense on certain liabilities amounting to P8, P10, and P18 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P8, P10, and P13 in 2014, 2013, and 2012, respectively, in the Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 21).

19. EQUITY

19.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the implemention 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 (CET1) 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 CET1 Capital.

The regulatory capital is analyzed as CET1 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 are required to comply with the minimum capital requirement of P20,000. As at December 31, 2014 and 2013, the Parent Bank has complied with the above capitalization requirement.

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 at December 31, 2014 follows:

	BDO Unibank Group	**Parent Bank**
Tier 1 Capital		
CET 1	**P 174,240**	**P 165,659**
Additional Tier 1	**5,150**	**5,150**
	179,390	**170,809**
Tier 2 Capital	**22,465**	**21,875**
Total Regulatory Capital	**201,855**	**192,684**
Deductions	**(18,565)**	**(35,534)**
Total Qualifying Capital	**P 183,290**	**P 157,150**
Total Risk-Weighted Assets	**P 1,273,121**	**P 1,203,832**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**14.4%**	**13.1%**
Tier 1 Capital Ratio	**12.6%**	**11.2%**
Total CET 1 Ratio	**12.2%**	**10.8%**

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 2.5 risk-based capital adequacy framework as at December 31, 2013 follows:

	BDO Unibank Group	Parent Bank
Tier 1 Capital	P 162,543	P 153,467
Tier 2 Capital	13,625	13,126
Total Regulatory Capital	176,168	166,593
Deductions	(11,981)	(33,249)
Total Qualifying Capital	P 164,187	P 133,344
Tier 1 Capital	P 162,543	P 153,467
Tier 1 Capital Deductions	(10,969)	(26,257)
Net Tier 1 Capital	P 151,574	P 127,210
Total Risk-Weighted Assets	P 1,058,789	P 1,002,386
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk-weighted assets	15.5%	13.3%
Tier 1 Capital Ratio	14.3%	12.7%

19.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2014	2013	**2014**	2013
Common shares – P10 par value				
Authorized – 4,500,000,000 shares				
Issued, fully paid and outstanding	**3,580,875,328**	3,580,875,328	**35,808**	35,808
Preferred shares – P10 par value				
Authorized – 2,000,000,000 shares				
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**5,150**	5,150

19.2.1 Preferred Shares

The following are the features of the BDO Unibank Group's preferred shares:

(a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;

(b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,

(c) Dividend rate is 6.5% per annum of the par value.

19.2.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
			3,580,875,328

As of December 31, 2014, there are 12,887 holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P109.8 per share as of December 29, 2014 (the last trading day in 2014).

19.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base.

ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

Given its sponsored Level 1 ADR Program, the Bank appointed Deutsche Bank (DB) as the exclusive depositary of ADRs for a period of five years. As depositary bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker.

There is no outstanding ADR as of December 31, 2014 and 2013.

19.4 Termination of Global Depositary Receipts by Primebridge

On various dates in 2006, Primebridge Holdings, Inc. (Primebridge), a stockholder owning 22.1% of the Parent Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 global depositary receipts (GDRs) with each GDR representing 20 shares of the Parent Bank's common shares.

The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance to Rule 144A under the U.S. Securities Act of 1993 (the Securities Act) and an offering outside the U.S. in reliance to Regulation under the Securities Act. The offer price for each GDR was US$12.70 on January 25, 2006 and February 14, 2006; and US$14.55 on May 15, 2006. The GDRs are listed and are traded at the London Stock Exchange.

As part of the offering, Primebridge, while remaining as the registered holder of the Parent Bank's shares underlying the GDRs, transferred all rights and interests in the Parent Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter are entitled to receive dividends paid on the shares. However, GDR holders have no voting rights or other direct rights of a shareholder with respect to the Parent Bank's shares.

Given the low trading activity for GDRs as well as the increase in float levels since 2006 when the program was established, the Parent Bank terminated the GDR program. BNY Mellon, as Depositary, subsequently received a Notice of Termination from BDO to terminate the GDR facility effective May 13, 2013.

With the termination of the program, BNY Mellon sold all remaining deposited securities representing the outstanding GDRs of BDO. On June 18, 2013, the remaining GDR holders were mandated to surrender their GDRs to BNY Mellon for cancellation and exchange in order to receive the cash proceeds from the sale of the deposited securities as follows:

Gross Rate per Depositary Shares	:	US$	44.899
Cancellation Fee	:		0.050
Net Rate per Depositary Shares	:	US$	44.849

The cash distribution by BNY Mellon to the remaining GDR holders effectively completed the GDR termination process. Subsequently, the GDRs were delisted from the London Stock Exchange.

19.5 Surplus Free

On June 11, 2014, the BOD of Equimark, a subsidiary of the Parent Bank, 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, a subsidiary of the Parent Bank, approved the declaration of cash dividends at P0.15 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P324. The dividends were declared to stockholders of record as of March 13, 2014 and payable on March 31, 2014, of which, total dividends paid to non-controlling interest amounted to P37.

On January 25, 2014, the Parent Bank's BOD approved the declaration of cash dividends on preferred shares at a rate of 6.5% of par value or P339. This was approved by the BSP on February 13, 2014 and was paid on March 11, 2014.

On January 4, 2014, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2013 earnings. On April 25, 2014, the Parent Bank's BOD also declared quarterly cash dividend of P0.30 per share representing dividends beginning the second quarter of 2014. Total dividends are P2.10 per share or P7,520. The dividends for the 2013 earnings and the quarterly cash dividends were approved by the BSP on January 27, 2014 and June 3, 2014, respectively. All related dividends declared were paid in 2014.

On June 20, 2013, the BOD of Equimark approved the declaration of cash dividends at P22.67 per share on 750,000 shares outstanding or a total of P17 to be paid to all stockholders of record as of December 31, 2012 and payable on June 28, 2013. Total dividends paid to non-controlling interests amounted to P7.

On April 19, 2013, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P1.20 per share in respect of the 2012 earnings. On the same date, the Parent Bank's BOD also declared quarterly cash dividend of P0.30 per share representing dividends beginning the second quarter of 2013. Total dividends are P2.10 per share or P7,520. This was approved by the BSP on May 28, 2013. The dividends for the 2012 earnings and second quarter of 2013 amounting to P5,371 were paid on July 5, 2013. The dividends for the third and fourth quarters amounting to P1,075 and P1,074 were paid on September 30, 2013 and December 27, 2013, respectively.

On April 17, 2013, the BOD of BDO Leasing approved the declaration of cash dividends at P0.15 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P324. The dividends were declared to stockholders of record as of May 17, 2013 and payable on June 13, 2013, of which, total dividends paid to non-controlling interest amounted to P37.

On January 26, 2013, the Parent Bank's BOD approved the declaration of annual cash dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P340, which was approved by BSP on February 20, 2013 and was paid on April 24, 2013.

On December 12, 2012, the BOD of Equimark approved the declaration of cash dividends at P80.00 per share on the 750,000 shares outstanding at the date of declaration or for P60. The dividends were declared to stockholders of record as of September 30, 2012 and paid on December 26, 2012. Total dividends paid to stockholders not within BDO Unibank Group amounted to P24.

On April 18, 2012, the BOD of BDO Leasing approved the declaration of cash dividends at P0.05 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P108. The dividends were declared to stockholders of record as of May 31, 2012 and payable on June 27, 2012, of which, total dividends paid to non-controlling interest amounted to P14.

On March 22, 2012, the Parent Bank's BOD approved the declaration of 3% stock dividend on outstanding common and preferred shares, equivalent to 78,218,589 common shares at P68.70 per share and 15,000,000 preferred shares at par. The declaration resulted in the recognition of APIC of P4,586, net of issue costs. The stock dividend was approved by the BSP on May 8, 2012 and distributed to the stockholders on June 8, 2012.

On January 28, 2012, the Parent Bank's BOD approved the declaration of annual cash dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P330, which was approved by BSP on February 20, 2012 and was paid on March 9, 2012.

19.6 Surplus Reserves

In 2014, the Parent Bank appropriated its Surplus Free amounting to P101 representing insurance fund on losses due to fire and robbery. This will be approved by the Parent Bank's BOD in its 2015 meeting.

On March 29, 2014, the BOD of BDO Securities, a subsidiary of the Parent Bank, approved the appropriation of their surplus free amounting to P150 as additional funds for proprietary equity trading of BDO Securities.

On May 31, 2013, the BOD of BDOI approved the reclassification of Surplus Reserves to Surplus Free amounting to P9 representing the cost of transfer of the BDOI's Consumer Lending Group (CLG) office from Orient Square to Equitable Robinson Tower Office.

On March 23, 2013, the BOD of BDO Capital and BDO Securities, subsidiaries of the Parent Bank, approved the appropriation of their surplus free amounting to P450 and P100, respectively, as additional working capital for underwriting activities and investments of BDO Capital and as additional funds for proprietary equity trading of BDO Securities.

On March 23, 2012, the BOD of BDO Capital approved the appropriation of its surplus free amounting to P250 as additional working capital for its underwriting activities and investments. On the same date, the BOD of BDO Securities, a wholly owned subsidiary of BDO Capital, approved the appropriations of its surplus free amounting to P80 and P70 as an additional working capital and additional funds for its proprietary equity trading, respectively.

Also, included in the 2014, 2013 and 2012 surplus reserve are the appropriations made by BDO Securities, PCIB Securities, Inc. and Armstrong Securities, Inc. (a subsidiary of BDOSHI), totaling P17, P9 and P10, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers.*

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business is appropriated to surplus reserve (see Note 25).

19.7 Other Reserves

In 2013, the BDO Unibank Group acquired additional shares of BDO Leasing through BDO Capital. This transaction increased the BDO Unibank Group's percentage of ownership from 87% to 89% resulting to a decrease in non-controlling interest of P47 and recognition of other reserves of P12 in the 2013 statement of changes in equity of BDO Unibank Group.

20. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group 2014	2013	2012
Loans and other receivables	10	**P 53,907**	P 45,685	P 42,288
Trading and investment securities	9	**7,333**	9,164	10,819
Due from BSP and other banks	7, 8	**2,065**	1,576	597
Others		**278**	181	310
		P 63,583	P 56,606	P 54,014

	Notes	Parent Bank 2014	2013	2012
Loans and other receivables	10	**P 52,172**	P 44,279	P 40,830
Trading and investment securities	9	**6,813**	8,762	10,233
Due from BSP and other banks	7, 8	**1,822**	1,381	448
Others		**64**	9	146
		P 60,871	P 54,431	P 51,657

21. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group 2014	2013	2012
Deposit liabilities	15	**P 10,441**	P 10,421	P 13,122
Bills payable and other liabilities	16, 17, 18, 23.2	**1,917**	3,019	4,771
		P 12,358	P 13,440	P 17,893

	Notes	Parent Bank 2014	2013	2012
Deposit liabilities	15	**P 10,181**	P 10,286	P 12,852
Bills payable and other liabilities	16, 17, 18, 23.2	**1,547**	2,728	4,393
		P 11,728	P 13,014	P 17,245

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group 2014	2013	2012
Service charges, fees and commissions	24	**P 15,386**	P 12,991	P 11,446
Trading gains – net	9	**5,868**	8,422	8,445
Trust fees	25	**2,624**	2,473	1,986
Foreign exchange gains (losses)		**1,244**	4,342	(212)
Income from assets sold or exchanged	12	**1,067**	840	671
Dividend income	24	**490**	498	422
Miscellaneous – net	26	**2,808**	2,278	1,669
		P 29,487	P 31,844	P 24,427

	Notes	Parent Bank 2014	2013	2012
Service charges, fees and commissions	24	**P 13,151**	P 10,952	P 9,945
Trading gains – net	9	**5,694**	7,302	8,082
Dividend income	24	**2,613**	829	994
Trust fees	25	**2,180**	2,116	1,696
Foreign exchange gains (losses)		**1,043**	4,153	(333)
Income from assets sold or exchanged	12	**1,022**	664	389
Miscellaneous – net	26	**1,323**	1,064	930
		P 27,026	P 27,080	P 21,703

Other operating expenses consist of the following:

	Notes	BDO Unibank Group 2014	2013	2012
Compensation and benefits	23	**P 18,081**	P 16,480	P 15,600
Taxes and licenses		**5,780**	4,769	4,166
Occupancy	31.2	**5,704**	4,948	4,707
Fees and commissions		**3,147**	2,687	1,649
Insurance		**2,856**	2,019	1,864
Security, clerical, messengerial and janitorial		**2,526**	2,260	2,120
Advertising		**2,427**	2,499	2,361
Representation and entertainment		**1,146**	1,139	953
Repairs and maintenance		**959**	766	654
Power, light and water		**920**	863	895
Travelling		**871**	761	687
Supplies		**515**	485	389
Litigation on assets acquired		**461**	575	719
Telecommunication		**432**	427	330
Information technology		**383**	485	247
Freight expenses		**241**	210	204
Amortization of computer software	13.6	**206**	135	376
Miscellaneous		**1,875**	1,751	1,573
		P 48,530	P 43,259	P 39,494

	Notes	Parent Bank 2014	2013	2012
Compensation and benefits	23	**P 16,905**	P 15,463	P 14,682
Taxes and licenses		**5,280**	4,366	3,874
Occupancy	31.2	**4,988**	4,482	4,405
Fees and commissions		**2,788**	2,417	1,514
Insurance		**2,771**	1,976	1,821
Security, clerical, messengerial and janitorial		**2,467**	2,211	2,071
Advertising		**2,323**	2,362	2,246
Representation and entertainment		**999**	1,005	840
Repairs and maintenance		**933**	750	643
Power, light and water		**861**	819	853
Travelling		**790**	684	618
Supplies		**480**	455	366
Litigation on assets acquired		**435**	558	671
Telecommunication		**381**	383	297
Information technology		**369**	475	234
Freight expenses		**238**	208	203
Amortization of computer software	13.6	**196**	128	368
Miscellaneous		**1,632**	1,622	1,398
		P 44,836	P 40,364	P 37,104

23. COMPENSATION AND BENEFITS

23.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

	BDO Unibank Group		
	2014	2013	2012
Salaries and wages	**P 10,896**	P 9,765	P 8,906
Bonuses	**3,502**	3,174	2,895
Retirement – defined benefit plan	**1,096**	1,040	934
Social security costs	**468**	401	364
Other benefits	**2,119**	2,100	2,501
	P 18,081	P 16,480	P 15,600

	Parent Bank		
	2014	2013	2012
Salaries and wages	**P 10,153**	P 9,115	P 8,326
Bonuses	**3,297**	2,983	2,704
Retirement – defined benefit plan	**991**	960	864
Social security costs	**429**	369	346
Other benefits	**2,035**	2,036	2,442
	P 16,905	P 15,463	P 14,682

23.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

BDO Unibank Group maintains a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of 10 years of credited service and late retirement up to age 65, both subject to the approval of BDO Unibank Group's BOD. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

The amounts of retirement benefit asset recognized as part of Retirement asset under Other Resources (see Note 13) are determined as follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Fair value of plan assets	**P 18,602**	P 15,757	**P 17,691**	P 14,904
Present value of the DBO	**(17,325)**	(14,900)	**(16,447)**	(14,072)
Excess of plan assets	**1,277**	857	**1,244**	832
Effect of asset ceiling	**(66)**	(42)	**(60)**	(38)
	P 1,211	P 815	**P 1,184**	P 794

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance at beginning of year	**P 15,757**	P 14,061	**P 14,904**	P 13,289
Contributions paid into the plan	**2,870**	1,396	**2,758**	1,354
Interest income	**790**	812	**752**	768
Benefits paid by the plan	**(836)**	(619)	**(740)**	(608)
Transfer to (from) the plan	**57**	-	**57**	-
Remeasurement gain - return on plan assets (excluding amounts included in net interest)	**(36)**	107	**(40)**	101
Balance at end of year	**P 18,602**	P 15,757	**P 17,691**	P 14,904

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance at beginning of year	**P 14,900**	P 13,729	**P 14,072**	P 12,976
Current service cost	**1,076**	1,040	**991**	960
Interest expense	**700**	772	**664**	729
Benefits paid by the plan	**(836)**	(619)	**(740)**	(608)
Other liabilities*	**1,436**	-	**1,404**	-
Liabilities assumed in business combinations**	**28**	-	**28**	-
Remeasurements:				
Actuarial (gains) losses arising from:				
- changes in financial assumptions	**69**	(135)	**78**	(133)
- changes in demographic assumptions	**(515)**	-	**(481)**	-
- experience adjustments	**467**	113	**431**	148
Balance at end of year	**P 17,325**	P 14,900	**P 16,447**	P 14,072

* *Other liabilities pertains to accrued sick leave/vacation leave credits of employees that qualify under the retirement plan of BDO Unibank Group. This amount was previously presented under Accrued other expense payable under Other Liabilities account in the 2013 statement of financial position, and was reversed upon funding through the retirement plan asset.*

** *Business combinations pertains to the retirement plan of BDO Savings, a newly acquired subsidiary in 2014, wherein the related retirement plan of the employees was subsequently transferred to the Parent Bank (see Note 26.1).*

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 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Placements in debt instruments				
- Government bonds	**P 6,207**	P 6,008	**P 5,903**	P 5,683
- Corporate bonds	**3,146**	1,606	**2,992**	1,519
Cash and cash equivalents	**3,970**	2,789	**3,775**	2,638
Unit investment trust funds (UITFs)	**2,576**	2,318	**2,450**	2,192
Loans and other receivables	**541**	1,018	**515**	963
Equity instruments	**216**	158	**205**	149
Other properties	**1,946**	1,860	**1,851**	1,760
	P 18,602	P 15,757	**P 17,691**	P 14,904

Actual returns on plan assets were P754 and P712 in 2014 and P919 and P869 in 2013 in BDO Unibank Group and the Parent Bank financial statements, respectively.

Certain plan assets comprise BDO Unibank Group's own financial instruments [see Note 24(c)].

The 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 2014	BDO Unibank Group 2013	BDO Unibank Group 2012
Recognized in profit or loss:			
Current service costs	**P 1,096**	P 1,040	P 934
Interest costs (income)	**(88)**	(40)	76
	P 1,008	P 1,000	P 1,010
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**(P 48)**	P 95	(P 74)
- changes in demographic assumptions	**360**	-	-
- experience adjustments	**(327)**	(79)	(326)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(25)**	74	494
- changes in the effect of the asset ceiling	**(19)**	(16)	(13)
Share in actuarial gains of associates	**12**	-	-
	(P 47)	P 74	P 81

	Parent Bank		
	2014	2013	2012
Recognized in profit or loss:			
Current service costs	**P 991**	P 960	P 864
Interest costs (income)	**(86)**	(39)	70
	P 905	P 921	P 934
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**(P 55)**	P 93	(P 70)
- changes in demographic assumptions	**336**	-	-
- experience adjustments	**(302)**	(104)	(326)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(28)**	71	485
- changes in the effect of the asset ceiling	**(14)**	(14)	(12)
	(P 63)	P 46	P 77

Current service costs are presented as part of Compensation and benefits expense account under Other Operating Expenses while interest income (costs) are included as part of Others under Interest Income in the statements of income of BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Discount rates	**4.54% - 4.96%**	4.04% - 4.72%	**4.54%**	4.72%
Expected rate of salary increases	**8.00%**	8.00%	**8.00%**	8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 26.9. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, UITF, debt and equity instruments, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2014			
BDO Unibank Group			
Discount rate	**1%**	**(P 544)**	**P 646**
Salary increase rate	**1%**	**548**	**(467)**
Parent Bank			
Discount rate	**1%**	**(P 498)**	**P 597**
Salary increase rate	**1%**	**506**	**(429)**

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2013			
BDO Unibank Group			
Discount rate	1%	(P 437)	P 486
Salary increase rate	1%	401	(370)
Parent Bank			
Discount rate	1%	(P 400)	P 445
Salary increase rate	1%	367	(339)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensations 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, 2014 and 2013 consists of debt instruments and cash and cash equivalents, although the BDO Unibank Group and Parent Bank also invest in UITFs and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the Company's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2014, the plan of BDO Unibank Group and the Parent Bank is currently fully funded based on the latest actuarial valuation report.

The BDO Unibank Group and the Parent Bank expects to pay P1,452 and P1,355, respectively, as contributions to retirement benefit plans in 2015.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next 10 years is presented as follows:

	BDO Unibank Group	Parent Bank
Between 1 to 5 years	P 6,554	P 6,327
Between 6 to 10 years	12,048	11,302
	P 18,602	P 17,629

24. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's significant transactions with its related parties as of and for the years ended December 31, 2014 and 2013 are as follows:

Related Party Category	Notes	**2014** Amount of Transaction	**2014** Outstanding Balance	2013 Amount of Transaction	2013 Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**P 28,534**	**P 12,046**	P 25,595	P 19,477
Related Parties Under Common Ownership		**76,984**	**34,389**	69,744	44,811
Officers and Employees		**1,022**	**1,415**	996	1,486
Directors		**2**	**2**	-	-
Deposit Liabilities	24 (b)				
Stockholders		**397,735**	**624**	324,435	145
Related Parties Under Common Ownership		**825,574**	**3,009**	646,610	2,318
Officers and Employees		**98**	**1**	-	-
Other Transactions with Associates	24 (d)				
Loans and Advances		**-**	**1,229**	-	1,244
Dividend Income		**428**	**148**	216	-
Interest Income		**92**	**4**	91	4
Service Fees		**42**	**12**	35	9
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**608**	**67**	529	62
Key Management Personnel	24 (d)				
Compensation		**1,202**	**-**	1,051	-
Retirement Plan	24 (c)	**139**	**4,312**	175	3,754

The summary of the Parent Bank's significant transactions with its related parties as of and for the years ended December 31, 2014 and 2013 are as follows:

Related Party Category	Notes	2014 Amount of Transaction	2014 Outstanding Balance	2013 Amount of Transaction	2013 Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**P 28,534**	**P 12,046**	P 25,595	P 19,477
Related Parties Under Common Ownership		**76,924**	**34,310**	69,668	44,782
Officers and Employees		**1,021**	**1,413**	995	1,481
Deposit Liabilities	24 (b)				
Stockholders		**397,735**	**624**	324,435	145
Related Parties Under Common Ownership		**825,574**	**3,009**	646,610	2,318
Officers and Employees		**98**	**1**	-	-
Other Transactions with Subsidiaries	24 (d)				
Loans and Advances		**56,847**	**7,890**	49,446	9,848
Derivative Assets		**85**	**5**	89	3
Derivative Liabilities		**1,224**	**7**	-	1
Deposit Liabilities		**451**	**2,804**	986	2,353
Dividend Income		**1,934**	**-**	364	-
Interest Income		**198**	**68**	219	45
Rent Income		**57**	**-**	53	-
Service Fees		**66**	**-**	66	-
Interest Expense		**11**	**1**	12	-
Rent Expense		**8**	**-**	8	-
Asset management fees		**119**	**-**	120	-
Other Transactions with Associates	24 (d)				
Dividend Income		**428**	**148**	216	-
Service Fees		**42**	**12**	35	9
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**608**	**67**	529	62
Key Management Personnel	24 (d)				
Compensation		**861**	**-**	728	-
Retirement Plan	24 (c)	**138**	**4,309**	174	3,750

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages:

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.0% to 3.5% per annum, 2.0% to 3.0% per annum, and 3.5% to 5.5% per annum in 2014, 2013 and 2012, respectively, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2014 and 2013, 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	
	2014	2013	**2014**	2013
Total DOSRI loans	**P 47,852**	P 65,774	**P 47,769**	P 65,740
Unsecured DOSRI loans	**3,203**	3,862	**3,143**	3,856
Past due DOSRI loans	**1**	2	**1**	2
Non-performing DOSRI loans	**1**	2	**1**	2
% of DOSRI loans to total loan portfolio	**4.4%**	7.2%	**4.5%**	7.3%
% of unsecured DOSRI loans to total DOSRI loans	**6.7%**	5.9%	**6.6%**	5.9%
% 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 2.2% to 12.0% in 2014, 2.3% to 12.0% in 2013 and 2.4% to 15.5% in 2012 (except for credit card receivables which bear a monthly interest rate of 0% to 3.6%).

Total DOSRI loans in 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 twenty years.

Total loan releases and collections in 2014 amounted to P106,541 and P124,463 for BDO Unibank Group and P106,478 and P124,449 for the Parent Bank, respectively. Total loan releases and collections in 2013, on the other hand, amounted to P96,335 and P81,987 for BDO Unibank Group and P96,258 and P81,898 for the Parent Bank, respectively.

(b) Deposits from Related Parties

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P1,223,407 and P971,045 in 2014 and 2013, respectively, and bearing interest rates of 0.0% to 5.3% in 2014 and 0.0% to 5.3% in 2013. The related interest expense from deposits amounted to P906 and P23 in 2014 and 2013, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended December 31, 2014 and 2013 as follows:

	December 31, 2014			
	BDO Unibank Group		**Parent Bank**	
Transactions	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Loans to employees				
BDO Unibank, Inc.	P 130	P 71	P 130	P 71
BDO Leasing	-	2	-	-
BDO Capital	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	4,090	-	4,090
Trading gain				
BDO Unibank, Inc.	-	134	-	134
Interest expense				
BDO Unibank, Inc.	8	-	8	-

	December 31, 2013			
	BDO Unibank Group		Parent Bank	
Transactions	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	P 145	P 90	P 145	P 90
BDO Leasing	-	3	-	-
BDO Capital	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	9	-	9
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	3,649	-	3,649
Trading gain				
BDO Unibank, Inc.	-	2	-	2
Interest expense				
BDO Unibank, Inc.	29	-	29	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P4,090 and P3,649 as of December 31, 2014 and 2013, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P8 in 2014 and P29 in 2013.

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 23.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown below.

(i) Transactions with and between subsidiaries have been eliminated in the consolidated financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured and without fixed repayment terms. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P92 and P262 as of December 31, 2014 and 2013, respectively (see Note 10).

The Parent Bank also grants interest-bearing loans to subsidiaries with outstanding balance of P7,798 and P9,586 as of December 31, 2014 and 2013, 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. These loans are payable between one month to two years. Interest income recognized on these loans amounted to P198 in 2014, P219 in 2013 and P142 in 2012 and is presented as part of Interest Income in the Parent Bank's statements of income. Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2014, 2.0% to 3.0% per annum in 2013 and 3.5% to 5.5% per annum in 2012.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, credit card services, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The fees payable shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank.
In 2014, 2013 and 2012, total service fees amounted to P66, P66 and P26, respectively, and are presented as part of Service charges, fees and commissions under Other Operating Income in the Parent Bank's statements of income (see Note 22). There are no outstanding balance arising from these transactions as of December 31, 2014 and 2013.

Certain subsidiaries lease office space from the Parent Bank. For the years ended December 31, 2014, 2013 and 2012, total rent collected from the subsidiaries amounted to P57, P53 and P51, respectively, and is included as part of Miscellaneous – net under Other Operating Income in the Parent Bank's statements of income (see Note 22). The term of the lease is five years.

BDO Capital, BDO Securities Corporation and BDOI, have reimbursed the Parent Bank on the actual costs and expenditures in relation to its services amounting to P119 and P120 in 2014 and 2013, respectively.

In 2014, 2013 and 2012, the Parent Bank's share in the cash dividends declared by BDO Unibank Group's subsidiaries amounted to P1,934, P364 and P646, respectively. These are presented as part of Dividend under Other Operating Income in the Parent Bank statements of income (see Note 22). Out of the total dividends declared, the Parent Bank received P1,934, P364 and P536 in 2014, 2013 and 2012, respectively.

(3) Expenses of the Parent Bank

The Parent Bank leases space from certain subsidiaries for its branch operations. Total rent paid for the years ended December 31, 2014, 2013 and 2012 amounted to P8, P8 and P6, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The lease term is between two to five years.

(4) Derivatives

In 2014 and 2013, 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, 2014 and 2013, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative liabilities under Other Liabilities account in the statements of financial position.

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank amounted to P2,804 and P2,353 in 2014 and 2013, respectively, and bearing interest rates of 0.0% to 5.3% in 2014 and 0.0% to 5.3% in 2013. The related interest expense from deposits amounted to P11 and P12 in 2014 and 2013, respectively.

(ii) Other transactions with associates are shown below.

(1) Loans and Advances to Associates

As of December 31, 2014 and 2013, outstanding loans and advances to associates amounted to P1,229 and P1,244, respectively, in BDO Unibank Group financial statements (nil for the Parent Bank). The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable between five to seven years. BDO Unibank Group recognized P92, P91 and P92 interest income on these loans in 2014, 2013 and 2012, respectively. Annual interest rate on these loans ranges from 6.6% to 7.7% for the years 2014, 2013 and 2012. As of December 31, 2014 and 2013, there were no impairment losses recognized on these loans and advances.

(2) Income to the Parent Bank

Generali, an associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, Generali pays the Parent Bank management fees equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. For the years ended December 31, 2014, 2013 and 2012, total services fees amounted to P42, P35 and P28, respectively.

Outstanding balances arising from this transaction amounted to P12 and P9 as of December 31, 2014 and 2013, respectively and is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

In 2014, 2013 and 2012, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P428, P216 and P209, respectively. These are presented as part of Dividend under Other Operating Income in the statements of income (see Note 22). Dividends receivable amounted to P148 as of December 31, 2014 (nil as of December 31, 2013). These are presented as part of Other Resources (see Note 13).

(iii) Transaction of the Parent Bank with related parties under common ownership:

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2014, 2013 and 2012, total rent paid to related parties amounted to P608, P529 and P451, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The terms of the lease are from two to five years.

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows:

	BDO Unibank Group		
	2014	2013	2012
Salaries and wages	**P 786**	P 679	P 619
Bonuses	**377**	334	305
Social security costs and other benefits	**39**	38	32
	P 1,202	P 1,051	P 956

	Parent Bank		
	2014	2013	2012
Salaries and wages	**P 562**	P 467	P 438
Bonuses	**271**	234	219
Social security costs and other benefits	**28**	27	24
	P 861	P 728	P 681

25. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not resources of the BDO Unibank Group (see Note 31.3).

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Investments	**P 808,105**	P 764,614	**P 590,995**	P 576,632
Others	**9,342**	6,758	**6,542**	4,465
	P 817,447	P 771,372	**P 597,537**	P 581,097

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities (shown as part of AFS securities) with a total face value of P9,106 and P8,471 as of December 31, 2014 and 2013, respectively, in BDO Unibank Group and P6,230 and P6,503 as of December 31, 2014 and 2013, 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, 2014 and 2013, the additional reserve for trust functions amounted to P192 and P190, respectively, for BDO Unibank Group and P156 and P161, respectively, for the Parent Bank, and is included as part of Surplus reserves in statements of changes in equity.

Income from trust operations, shown as Trust fees under Other Operating Income, amounted to P2,624, P2,473 and P1,986 for the years ended December 31, 2014, 2013 and 2012, respectively, in BDO Unibank Group statements of income and P2,180, P2,116 and P1,696 for the years ended December 31, 2014, 2013 and 2012, respectively, in the Parent Bank statements of income (see Note 22).

26. MERGERS AND ACQUISITIONS

26.1 Acquisition of CBN Grupo, Averon Holdings Corporation, BDO Savings, and One Network Bank, Inc.

BDO Savings

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.99% of the outstanding capital stock of CSI for P876 subject to necessary regulatory approval. The BSP approved the transaction on February 20, 2014. The acquisition resulted in the recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively. Subsequent to the acquisition, the Parent Bank changed the name of CSI to Banco De Oro Savings, Inc. (BDO Savings). Subsequently, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.3). The breakdown of the acquisition-date fair value of the assets and liabilities of BDO Savings, including the cost of investments follows:

Cash and cash equivalents	P	5,756
Trading and investment securities		1,012
Loans and other receivables		11
Bank premises, furniture, fixtures and equipment		48
Other resources		16
Total resources		6,843
Deposit liabilities		5,748
Other liabilities		199
Total liabilities		5,947
Net asset position		896
Cost of investment*		878
Gain from acquisition	P	18

** The value of the 20 branch licenses as a consequence of this acquisition totaling P380 were separately identified and valued by the Parent Bank and previous shareholders, hence, did not form part of the cost of investment.*

Averon Holdings

On August 30, 2013, BDO Capital, a subsidiary of BDO Unibank, acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company primarily engaged in the leasing business, amounting to P44. As of the date of acquisition, total resources and total liabilities of Averon Holdings Corporation amounted to P1,484 and P1,397, respectively. Gain from acquisition amounted to P43, which is presented as part of Miscellaneous - net account under Other Operating Income in the 2013 statement of income (see Note 22).

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash	P	24
Receivables		20
Investment property		1,434
Property and equipment		3
Other resources		3
Total resources		1,484
Loans payable		692
Accounts payable		471
Deferred tax liabilities		133
Other liabilities		101
Total liabilities		1,397
Net asset position	P	87
Cost of investment		44
Gain from acquisition	P	43

CBN Grupo

In May 2013, BDO Unibank Group 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. As of date of initial consolidation, total resources and total liabilities of CBN Grupo amounted to P438 and P339, respectively. The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments and the amount of goodwill follows:

Cash	P	368
Receivables		3
Property and equipment		44
Other resources		23
Total resources		438
Accounts payable		319
Other liabilities		20
Total liabilities		339
Net asset position		99
Non-controlling share in equity		39
Cost of investment		151
Goodwill	P	91

One Network Bank, Inc.

On December 23, 2014, the Parent Bank disclosed that it has entered into an agreement to acquire One Network Bank, Inc., a leading rural bank with 105 branches and micro-banking offices in the Mindanao and Panay areas. The transaction is still subject to closing conditions and the necessary regulatory approvals.

26.2 Purchase of Assets and Assumption of Liabilities of The Real Bank (A Thrift Bank), Inc.

On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. [TRB] executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Bank recognized the fair value of assets and liabilities of TRB as presented below.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		10
Total resources	P	2,491

Total resources	P	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). As of December 31, 2014, the necessary approval on the issuance of the term loan is still pending and is presented as part of Accounts receivables under Loans and Other Receivables in the 2014 statement of financial position (see Note 10).

26.3 Acquisition of Assets and Assumption of Liabilities from BDO Savings

On April 3, 2014, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.1). The BSP approved the transaction on August 1, 2014. The Parent Bank recognized the assets and liabilities of BDO Savings as follows:

Cash and other cash items	P	4,778
Loans and other receivables		3
Premises, furniture, fixtures and equipment		35
Other resources		18
Total resources		4,834
Deposit liabilities		4,765
Other liabilities		69
Total liabilities		4,834
Net liability position	P	-

26.4 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 P35.7 billion and presented as part of contingent accounts under Trust department accounts (see Note 31.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources in the 2014 statement of financial position (see Note 13).

27. TAXES

27.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2014	2013	2012
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 3,401**	P 480	P 1,371
Minimum corporate income tax (MCIT) at 2%	**369**	583	3
Final taxes at 20%, 15%, 10% and 7.5%	**1,084**	788	663
	4,854	1,851	2,037
Deferred tax (income) expense relating to origination and reversal of temporary differences	**(74)**	253	487
	4,780	2,104	2,524
Application of previously unrecognized MCIT	**(540)**	-	(953)
	P 4,240	P 2,104	P 1,571
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 22)**	P 32	P 35
Movements in fair value of AFS securities	**4**	(21)	(32)
Movements in revaluation increment	**-**	(41)	-
	(P 18)	(P 30)	P 3

	Parent Bank		
	2014	2013	2012
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 3,202**	P 65	P 992
Final taxes at 20%, 15%, 10% and 7.5%	**933**	636	550
MCIT at 2%	**-**	474	-
	4,135	1,175	1,542
Deferred tax (income) expense relating to origination and reversal of temporary differences	**(73)**	243	511
	4,062	1,418	2,053
Application of previously unrecognized MCIT	**(540)**	-	(936)
Tax expense reported in the statements of income	**P 3,522**	P 1,418	P 1,117
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 26)**	P 19	P 33
Movements in revaluation increment	**-**	(38)	-
	(P 26)	(P 19)	P 33

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2014	2013	2012
Tax on pretax profit at 30%	**P 8,120**	P 7,425	P 4,834
Adjustment for income subjected to lower income tax rates	**(430)**	(266)	(24)
Tax effects of:			
Income exempt from tax	**(3,446)**	(5,902)	(3,349)
Non-deductible expenses	**791**	1,448	2,010
Utilization of previously unrecognized net operating loss carryover (NOLCO)	**(501)**	-	-
Application of previously unrecognized MCIT	**(540)**	-	(953)
Deductible temporary differences not recognized	**(266)**	(1,435)	(896)
NOLCO not recognized	**6**	563	-
Others	**506**	271	(51)
Tax expense reported in profit or loss	**P 4,240**	P 2,104	P 1,571

	Parent Bank		
	2014	2013	2012
Tax on pretax profit at 30%	**P 7,896**	P 6,575	P 4,248
Adjustment for income subjected to lower income tax rates	**(359)**	(244)	(42)
Tax effects of:			
Income exempt from tax	**(3,340)**	(5,628)	(3,268)
Non-deductible expenses	**630**	1,194	1,925
Application of previously unrecognized MCIT	**(540)**	-	(936)
Utilization of previously unrecognized NOLCO	**(482)**	-	-
Deductible temporary differences not recognized	**(283)**	(1,435)	(810)
NOLCO not recognized	**-**	482	-
Others	**-**	474	-
Tax expense reported in profit or loss	**P 3,522**	P 1,418	P 1,117

The components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Deferred tax assets:				
Allowance for impairment	**P 5,924**	P 5,624	**P 5,823**	P 5,513
Unamortized past service costs	**1,608**	1,298	**1,556**	1,249
Lease income differential – PAS 17	**99**	90	**99**	90
NOLCO	**31**	35	**-**	-
Others	**2**	46	**-**	-
Balance carried forward	**P 7,664**	P 7,093	**P 7,478**	P 6,852

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance brought forward	**P 7,664**	P 7,093	**P 7,478**	P 6,852
Deferred tax liabilities:				
Revaluation increment	**438**	438	**439**	439
Retirement asset	**723**	245	**768**	238
Lease income differential	**121**	150	**-**	-
Changes in fair values of AFS securities	**76**	70		-
Capitalized interest	**58**	61	**58**	61
Others	**215**	188	**-**	-
	1,631	1,152	**1,265**	738
Net Deferred Tax Assets	**P 6,033**	P 5,941	**P 6,213**	P 6,114

Deferred tax asset includes P184 from consolidation of Averon Holdings Corporation upon acquisition by BDO Capital in 2013.

Movements in net deferred tax assets for the year ended December 31 follow:

	Statements of Income		
	2014	2013	2012
BDO Unibank Group			
Retirement asset	**P 500**	P 119	P 967
Unamortized past service costs	**(310)**	62	(783)
Allowance for impairment	**(300)**	73	347
Lease income differential	**(38)**	(4)	(43)
NOLCO	**4**	(28)	36
Capitalized interest	**(3)**	8	(3)
Others	**73**	23	(34)
Deferred Tax Expense (Income)	**(P 74)**	P 253	P 487
Parent Bank			
Retirement asset	**P 556**	P 130	P 876
Allowance for impairment	**(310)**	55	368
Unamortized past service costs	**(307)**	55	(728)
Lease income differential	**(9)**	(5)	(2)
Capitalized interest	**(3)**	8	(3)
Others	**-**	-	-
Deferred Tax Expense (Income)	**(P 73)**	P 243	P 511

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Movements in unrecognized actuarial losses	**(P 22)**	32	**(P 26)**	P 19
Movements in fair value of AFS securities	**4**	(21)	**-**	-
Movements in revaluation increment	**-**	(41)	**-**	(38)
Deferred Tax Income	**(P 18)**	(P 30)	**(P 26)**	(P 19)

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
2014	P 3	P 12	2017
2013	845	6	2016
2012	82	-	2015
	P 930	P 18	

In 2014, NOLCO and MCIT amounting to P13 and P1, respectively, expired for BDO Unibank Group; while, NOLCO and MCIT amounting to P1,607 and P539, respectively, were fully applied by the Parent Bank in 2014.

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2014 and 2013 are as follows:

	BDO Unibank Group			
	2014		2013	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 21,745**	**P 6,524**	P 22,788	P 6,837
NOLCO	**930**	**279**	1,878	563
MCIT	**18**	**18**	540	540
Others	**812**	**244**	826	248
	P 23,505	**P 7,065**	P 26,032	P 8,188

	Parent Bank			
	2014		2013	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 20,588**	**P 6,176**	P 21,610	P 6,483
NOLCO	**-**	**-**	1,607	482
MCIT	**-**	**-**	539	539
Others	**699**	**210**	826	248
	P 21,287	**P 6,386**	P 24,582	P 7,752

BDO Unibank Group continues claiming itemized deduction for income tax purposes.

27.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

27.3 Documentary Stamp Tax

Documentary stamp taxes (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 below.

(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.

27.4 Supplementary Information Required by the Bureau of Internal Revenue

The BIR issued 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 Securities and Exchange Commission rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

28. EARNINGS PER SHARE

Basic earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2014	2013	2012
Net profit attributable to shareholders of the Parent Bank	**P 22,805**	P 22,608	P 14,483
Dividends on preferred shares	**(339)**	(340)	(330)
Net profit available to common shares	**22,466**	22,268	14,153
Divided by the weighted average number of outstanding common shares (in millions)	**3,581**	3,581	3,129
Basic earnings per share	**P 6.27**	P 6.22	P 4.52

Diluted earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2014	2013	2012
Net profit attributable to shareholders of the Parent Bank	**P 22,466***	P 22,608	P 14,153*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,581**	3,581	3,129
Potential common shares from assumed conversion of preferred shares	*****	75	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,581**	3,656	3,129
Diluted earnings per share	**P 6.27**	P 6.18	P 4.52

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2014 and 2012.*

*** Potential common shares from assumed conversion of stock option plan are purchased in the secondary market and no additional issuance is expected to be made.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2014	2013	2012
Net profit	**P 22,797**	P 20,499	P 13,044
Dividends on preferred shares	**(339)**	(340)	(330)
Net profit available to common shares	**22,458**	20,159	12,714
Divided by the weighted average number of outstanding common shares (in millions)	**3,581**	3,581	3,129
Basic earnings per share	**P 6.27**	P 5.63	P 4.06

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2014	2013	2012
Net profit	**P 22,458***	P 20,499	P 12,714*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,581**	3,581	3,129
Potential common shares from assumed conversion of convertible preferred shares	*****	75	*
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,581**	3,656	3,129
Diluted earnings per share	**P 6.27**	P 5.61	P 4.06

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2014 and 2012.*

** *Potential common shares from assumed conversion of stock option plan are purchased in market and no additional issuance is expected to be made.*

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2014	2013	2012
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**13.4%**	14.0%	11.7%
Return on average resources:			
Net profit / Average total resources	**1.3%**	1.6%	1.3%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.3%	3.4%
Return on common equity:			
Net profit / Average common equity	**13.6%**	14.3%	12.0%
Liquidity ratio:			
Total liquid resources / Total resources	**38.1%**	43.0%	35.3%
Debt to equity:			
Total liabilities / Total equity	**937.3%**	917.8%	704.3%
Resources to equity:			
Total resources / Total equity	**1,037.3%**	1,017.8%	804.3%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**319.0%**	284.2%	190.1%
Profit margin:			
Net profit / Revenues	**24.5%**	25.6%	18.5%

	2014	2013	2012
BDO Unibank Group			
Capital to risk resources ratio*:			
Combined credit, market and operational risks	**14.4%**	15.5%	19.2%

* *Computed using balances prepared under PFRS*

	2014	2013	2012
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**14.3%**	13.5%	11.2%
Return on average resources:			
Net profit / Average total resources	**1.4%**	1.5%	1.2%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.3%	3.3%
Return on common equity:			
Net profit / Average common equity	**14.5%**	13.8%	11.5%
Liquidity ratio:			
Total liquid resources / Total resources	**37.4%**	41.7%	34.1%
Debt to equity:			
Total liabilities / Total equity	**964.0%**	950.6%	729.1%
Resources to equity:			
Total resources / Total equity	**1,064.0%**	1,050.6%	829.1%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**324.4%**	268.4 %	182.1%
Profit margin:			
Net profit / Revenues	**25.9%**	25.2%	17.8 %

	2014	2013	2012
Parent Bank			
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**13.1%**	13.3%	17.3%

* *Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Aggregate amount of secured liabilities	**P 23,977**	P 29,022	**P 22,853**	P 28,304
Aggregate amount of resources pledged as security	**P 32,482**	P 29,814	**P 29,695**	P 27,734

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

On January 10, 2015, the Parent Bank's BOD approved the declaration of cash dividends on the Parent Bank's common shares of P0.30 per share as of end of each quarter in 2015 or a total of P1.20. The cash dividend declaration is pending approval from the BSP as of audit report date.

On January 31, 2015, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The said dividend declaration is pending approval from the BSP as of audit report date.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2014, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

The Parent Bank was a respondent in two arbitration proceedings under the International Chamber of Commerce (ICC) arising from isolated transactions, i.e., the sale of its equity investments.

31.1.1 Sale of Bankard

BDO (as successor in interest of EPCIB), as respondent, and RCBC Capital Corporation ("RCBC Capital"), as claimant, were involved in international arbitration proceedings involving the Sale and Purchase Agreement ("SPA") executed between RCBC Capital and EPCIB in May 2000, whereby EPCIB sold to RCBC Capital its 67% stake in the outstanding capital stock of Bankard, Inc. ("Bankard"). RCBC Capital and BDO Unibank, Inc. reached a complete and final settlement of their claims in 2013 and the various cases between them have been terminated.

31.1.2 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (TRO) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

On November 27, 2012, the Petitioning Banks filed a Manifestation With Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated November 27, 2012 ("Manifestation/Reiterative Motion"), praying that the Supreme Court issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to Petitioners to enable them to comply with the Honorable Court's "condition that the 20% final withholding tax on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On February 7, 2013, the Petitioners received Respondents' Motion asking for a period of thirty (30) days from February 4, 2013, or until March 6, 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated February 12, 2013, the Supreme Court granted Respondents' Motion.

On April 17, 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated April 11, 2013. On June 5, 2013, the Petitioners filed a Reply to said Comment. By Resolutions dated June 10, 2013 and July 9, 2013, respectively, the Supreme Court admitted the Petitioners-Intervenors RCBC and RCBC Capital's Reply and Petitioners' Reply. BDO Unibank Group is awaiting the resolution of the Supreme Court on the Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order and further action on BDO Unibank Group's Petition.

Management believes that the petitioning banks have a strong case, and that the probability of recovery is high.

31.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2014, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from 1 to 15 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 P2,199, P1,971 and P1,744 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P2,131, P1,875 and P1,672 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements (see Note 22).

As of December 31, 2014, the estimated minimum future annual rentals of BDO Unibank, Inc. and Parent Bank follow:

	BDO Unibank Group		Parent Bank	
Within one year	P	2,077	P	1,963
More than one year but not more than five years		10,398		9,802
More than five years		3,908		3,768
	P	16,383	P	15,533

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group 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, 2014 and 2013, 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	**2014**	2013	**2014**	2013
Trust department accounts	25	**P 817,447**	P 771,372	**P 597,537**	P 581,097
Forward exchange sold		**140,322**	133,684	**120,045**	92,892
Committed credit lines		**121,794**	121,989	**121,575**	121,676
Forward exchange bought		**121,434**	117,517	**98,584**	76,726
Unused commercial letters of credit		**54,109**	37,423	**54,109**	37,423
ROP warrants		**15,021**	15,021	**15,021**	15,021
Interest rate swap receivable		**8,756**	7,670	**5,900**	6,474
Interest rate swap payable		**8,756**	7,670	**5,900**	6,474
Spot exchange sold		**7,111**	7,490	**7,105**	7,091
Bills for collection		**6,978**	7,375	**6,978**	7,375
Outstanding guarantees issued		**3,446**	664	**3,446**	664
Late deposits/payments received		**3,318**	2,534	**3,318**	2,534
Spot exchange bought		**2,522**	4,774	**2,516**	4,375
Export letters of credit confirmed		**240**	39	**240**	39
Credit default swap		**-**	133	**-**	-
Other contingent accounts		**1,138**	1,135	**1,138**	1,135