Important notice

You must read the following disclaimer before continuing. The following disclaimer applies to the prospectus following this page and you are therefore advised to read this disclaimer carefully before accessing, reading or making any other use of the attached prospectus. In accessing the attached prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from BDO Unibank, Inc. (the "Bank") as a result of such access.

You acknowledge that the attached prospectus and the information contained therein are strictly confidential and intended for you only. You are not authorized to and you may not forward or deliver the attached prospectus, electronically or otherwise, to any other person or reproduce such prospectus in any manner whatsoever, nor may you disclose the information contained in the attached prospectus to any third-party or use it for any other purpose. **Any forwarding, distribution, publication or reproduction of the attached prospectus in whole or in part or disclosure of any information contained therein or any use of such information for any other purpose is unauthorized.** Failure to comply with this directive may result in a violation of the securities laws of applicable jurisdictions. Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so, and access has been limited so that it shall not constitute directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in the United States or elsewhere. The securities referred to in the attached prospectus have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

CONFIRMATION OF YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED PROSPECTUS, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED PROSPECTUS ON THE BASIS THAT YOU HAVE CONFIRMED THAT YOU AND THE PERSON, IF ANY, FOR WHOSE ACCOUNT YOU ARE ACTING, ARE LOCATED OUTSIDE OF THE UNITED STATES (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED PROSPECTUS, YOU WILL BE DOING SO PURSUANT TO REGULATION S UNDER THE SECURITIES ACT; AND CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This prospectus has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Bank nor any of its affiliates, directors, officers, employees, agents, representatives, bookrunners or advisors accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version. You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this prospectus, electronically or otherwise, to any other person.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PROSPECTUS

BDO

BDO Unibank, Inc.

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

BDO CORPORATE CENTER
7899 MAKATI AVENUE
MAKATI CITY
TELEPHONE NUMBER: (632) 840 7000

Prospectus relating to the ₱60.0 billion Rights Offer of 716,402,886 Common Shares with a par value of ₱10.00 per Share to be offered at the Offer Price of ₱83.75 per Rights Share to be listed and traded on The Philippine Stock Exchange, Inc.
Ratio of 1: 5.095 Common Shares held

Joint Global Coordinators

BDO Capital & Investment Corporation | Credit Suisse | UBS

Joint Bookrunners

BDO Capital & Investment Corporation | citi | Credit Suisse | Goldman Sachs | HSBC | UBS

Issue Manager and Domestic Underwriter

BDO Capital & Investment Corporation

THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION. THE OFFER OF THE SECURITIES IS EXEMPT PURSUANT TO SECTION 10.1 OF THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE "SRC") AND, ACCORDINGLY THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SRC. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

The date of this Prospectus is January 3, 2017

BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue
Makati City, Philippines
Telephone number: (632) 840 7000
www.bdo.com.ph

This Prospectus relates to the offering for subscription (the "Offer") of 716,402,886 shares of common stock (the "Rights Shares"), with a par value of ₱10.00 per share (the "Common Shares"), of BDO Unibank, Inc. (the "Bank"), a universal banking corporation organized under the laws of the Republic of the Philippines, by way of a stock rights offering to existing eligible shareholders of record of Common Shares (the "Eligible Shareholders") at the proportion of one Rights Share for every 5.095 existing Common Shares held as of January 10, 2017, 12:00 p.m. (Manila time) (the "Record Date") at an offer price of ₱83.75 per Rights Share (the "Offer Price"). Any fractional share shall be disregarded in the computation of the Rights Shares that eligible shareholders will be entitled to. Each of SM Investments Corporation, Multi-Realty Development Corporation, SM Prime Holdings, Inc., Sybase Equity Investments Corporation and Sysmart Corporation, who collectively beneficially own 54.52% of the Bank's shareholdings as of September 30, 2016, has respectively agreed to subscribe for at least its minimum allotment of Rights Shares. SM Investments Corporation will subscribe or procure that a single related shareholder (an "SM Group Shareholder") or any number of SM Group Shareholders (in which case, such SM Group Shareholders may subscribe to such remaining Rights Shares in such proportion as they may determine in their sole discretion) will subscribe for any remaining Rights Shares unsubscribed after the mandatory second round of the Offer as part of the stock rights offering, to ensure that the Rights Shares covered by the Offer are fully subscribed. In the event any SM Group Shareholder is unable to subscribe and fully pay for any such remaining unsubscribed Rights Shares after the mandatory second round of the Offer, SM Investments Corporation shall procure that such remaining Rights Shares are subscribed and paid in full.

BDO Capital & Investment Corporation ("BDO Capital" or the "Issue Manager and Domestic Underwriter"), in accordance with a domestic underwriting agreement entered into between the Bank and the Issue Manager and Domestic Underwriter (the "Underwriting Agreement"), shall purchase or procure subscribers to purchase all of the unsubscribed Rights Shares that are not taken up by the SM Group Shareholders after the mandatory second round of the Offer, to ensure that the Rights Shares covered by the Offer are fully subscribed. Any such Rights Shares that are unsubscribed in the Offer may be offered only to qualified buyers (as defined in the Securities Regulation Code of the Philippines).

BDO Capital, Credit Suisse (Singapore) Limited ("Credit Suisse"), UBS AG, Hong Kong Branch ("UBS", and together with BDO Capital and Credit Suisse, the "Joint Global Coordinators"), together with Citigroup Global Markets Inc. ("Citigroup"), Goldman Sachs (Singapore) Pte. ("Goldman Sachs") and The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch ("HSBC", and together with Citigroup, Goldman Sachs and the Joint Global Coordinators, the "Joint Bookrunners"), have agreed to use reasonable efforts to assist the Bank in soliciting interest from existing shareholders of the Bank (excluding (i) existing shareholders in the United States, and (ii) for Credit Suisse, UBS, Citigroup, Goldman Sachs and HSBC (collectively, the "International Bookrunners"), existing shareholders in the Philippines) in the purchase of the Rights Shares.

Holders of Common Shares who are eligible to participate in the Offer are: (i) holders located inside the Philippines and (ii) holders located in jurisdictions outside the Philippines and outside the United States where it is legal to participate in the Offer under the securities laws of such jurisdiction.

The authorized capital stock of the Bank is ₱65,000,000,000 consisting of 4,500,000,000 Common Shares with a par value of ₱10.00 per share, and 2,000,000,000 preferred shares with a par value of ₱10.00 per share, including 1,500,000,000 Series A preferred shares. As of September 30, 2016, the

Bank's total outstanding and issued shares comprised 3,648,487,878 Common Shares and 515,000,000 Series A preferred shares. See "The Rights Offer". After the Offer, the Bank will have 4,366,475,594 issued and outstanding Common Shares (comprised of 3,650,072,708 Common Shares as of January 3, 2017 and 716,402,886 Rights Shares), and the percentage of the Rights Shares to the Bank's total issued and outstanding Common Shares will be 16.41%.

All of the Common Shares of the Bank issued and to be issued pursuant to the Offer have, or will have, identical rights and privileges. The Common Shares may be owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits under Philippine law. See "Summary of the Offer," "Risk Factors" and "Description of the Securities".

Dividends are declared and paid out of the earned surplus or net profits of the Bank as often and at such intervals as the Bank's board of directors (the "Board" or "Board of Directors") may determine and in accordance with the provisions of law and the regulations of the *Bangko Sentral ng Pilipinas* (the "BSP"), the central bank of the Philippines, and the Philippine Securities and Exchange Commission (the "Philippine SEC"). There are no specific requirements relating to the Bank's dividend policy. On December 3, 2016, the Board of Directors of the Bank approved the declaration of regular cash dividends on the Bank's common shares in the amount of ₱0.30 per share or in the aggregate, approximately ₱1.1 billion, payable on December 29, 2016 to all stockholders of record as of December 19, 2016. See "Dividends and Dividend Policy".

The Bank's Common Shares are listed on the Philippine Stock Exchange, Inc. ("PSE") under the symbol "BDO". On December 29, 2016, the closing price of the Bank's Common Shares on the PSE was ₱112.10 per Common Share.

The Bank files annual and interim reports, as well as other information, with the PSE. The information filed by the Bank with the PSE does not form part of this Prospectus, is not incorporated by reference herein and should not be relied on when making an investment decision with respect to the Rights Shares.

The Offer is conditioned on the listing of the Rights Shares on the PSE. The approval by the PSE of the Offer is based on the price set forth above. The Bank expects to raise gross proceeds of ₱59,998.7 million. The Bank expects that the net proceeds from the Offer, determined by deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and expenses, which are estimated not to exceed 0.41% of the proceeds of the Offer, will be temporarily placed in investments allowed under BSP regulations including BSP overnight placements and term deposit facilities. The net proceeds from the Offer are then expected to be used to finance loan growth within the next few years, as well as for other general corporate purposes. See "Use of Proceeds".

No dealer, salesman, or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Bank or any of the Issue Manager and Domestic Underwriter, the Joint Global Coordinators and the Joint Bookrunners. The distribution of this Prospectus and the offer and sale of the Rights Shares may, in certain jurisdictions, be restricted by law. The Bank, the Joint Global Coordinators and the Joint Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions.

NOTHING IN THIS PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE

SECURITIES 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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Unless the context clearly indicates otherwise, any reference to "the Bank" refers to BDO Unibank, Inc. on a consolidated basis, including its consolidated subsidiaries and associates. The information contained in this Prospectus 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), together with BDO Capital, have exercised due diligence, and confirms that, as of the date of this Prospectus, all material information contained in this Prospectus relating solely to the Bank, its operations and those of its subsidiaries and associates is true and correct and that there is no material misstatement or omission of information or fact which would make any statement in this Prospectus misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus 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. The Joint Global Coordinators and the Joint Bookrunners assume no liability for information supplied by the Bank in relation to this Prospectus.

In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Offer, including the material risks involved. The Offer is being made on the basis of this Prospectus only.

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Bank nor any of the Joint Global Coordinators or the Joint Bookrunners makes any representation as to the accuracy of such information.

In this Prospectus, references to "Pesos" or "₱" are to the lawful currency of the Philippines. The Bank maintains its accounts in Philippine Pesos. References to "U.S. Dollars", "US$" or "$" are to the lawful currency of the United States of America. For the convenience of the reader, certain U.S. dollar amounts have been translated into Peso amounts, based on the prevailing exchange rate on September 30, 2016 of ₱48.257= US$1.00, being the weighted average rate for that date for the purchase of U.S. dollars for Pesos which is published in the Reference Exchange Rate Bulletin by the Bangko Sentral ng Pilipinas (the "BSP" and 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 Prospectus 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.

This Prospectus includes forward-looking statements. The Bank has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. The words "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. The Bank's actual results could differ substantially from those anticipated in the Bank's forward-looking statements.

An application for listing of the Rights Shares was approved on December 14, 2016 by the board of directors of the PSE, subject to the fulfillment of certain listing conditions. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Rights Shares by the PSE.

On December 6, 2016, the Philippine SEC issued a Notice of Confirmation of Exempt Transaction confirming that the Offer is exempt from the registration requirements of the SRC. In a letter dated November 23, 2016, the BSP confirmed that it has no objection to the proposed Offer of the Bank.

THE OFFER OF THE SECURITIES IS EXEMPT PURSUANT TO SECTION 10.1 OF THE SRC AND, ACCORDINGLY THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SRC. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

BDO UNIBANK, INC.

By:

(Original Signed and Notarized)
Nestor V. Tan
President and CEO

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Glossary of Certain Terms

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below:

AFS	available-for-sale
ALCO	the Bank's asset and liability committee
AMLC	Anti-Money Laundering Council
Articles of Incorporation	The Articles of Incorporation of the Bank, as amended to date
Anti-Money Laundering Act	the Anti-Money Laundering Act of 2001 of the Philippines, as amended by Republic Act No. 9194
ATM	automated teller machine
Bank	BDO Unibank, Inc.
Banking Day	a day (except Saturdays, Sundays and holidays) on which banks in the Philippines are open for business
Basel (I, II and III)	a set of banking laws and regulations, including minimum capital adequacy requirements, recommended by the Basel Committee on Banking Supervision
BDO Capital	BDO Capital & Investment Corporation
BIR	Philippine Bureau of Internal Revenue
Board or the Board of Directors	the board of directors of the Bank
BSP	*Bangko Sentral ng Pilipinas*, the Philippine Central Bank
BSP Rate	the weighted average rate for the purchase of U.S. Dollars for Pesos under the PDS appearing as of any given date in the Reference Exchange Rate Bulletin of the BSP
By-laws	the By-laws of the Bank, as amended to date
CAR	capital adequacy ratio
CASA	the Bank's regular Current Account/Savings Account products
CET1	Common Equity Tier 1
Common Shares	shares of common stock of the Bank, each with a par value of ₱10.00
Director	a director of the Bank
DOSRI	directors, officers, stockholders and related interests
EDGE	Electronic Disclosure Generation Technology of the PSE

Eligible Shareholders	existing holders of record of Common Shares as of the Record Date who are: (i) located in the Philippines and (ii) located in jurisdictions outside the Philippines and the United States where it is legal to participate in the Offer under the securities laws of such jurisdictions
EPCIB	Equitable PCI Bank, Inc.
FCDU	foreign currency deposit unit
FVTPL	fair value through profit or loss
GDR	global depository receipt
General Banking Law	General Banking Law (Republic Act No. 8791)
Government	the government of the Republic of the Philippines
Group	the Bank and its subsidiaries and associated companies
HTM	held-to-maturity
Issue Manager and Domestic Underwriter	BDO Capital & Investment Corporation
Joint Bookrunners	BDO Capital, Citigroup, Credit Suisse, Goldman Sachs, HSBC and UBS
Joint Global Coordinators	BDO Capital, Credit Suisse and UBS
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Taguig and San Juan and the municipality of Pateros, which together comprise the "National Capital Region" and are commonly referred to as "Metro Manila"
Monetary Board	Monetary Board of the BSP
New Central Bank Act	New Central Bank Act (Republic Act No. 7653)
NPLs	non-performing loans
OFWs	overseas Filipino workers
ONB	One Network Bank, Inc., a subsidiary of the Bank
PAS	Philippine Accounting Standards
PCD Nominee	PCD Nominee Corporation, a corporation wholly owned by the PDTC
PDIC	Philippine Deposit Insurance Corporation
PDS	the Philippine Dealing System

PDTC	the Philippine Depository and Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos and ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippine Corporation Code	Corporation Code of the Philippines, Batas Pambansa Blg. 68
Philippine National	as defined under the Republic Act No. 7042 (as amended by Republic Act 8179), means a citizen of the Philippines, or a domestic partnership or association wholly-owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals. Provided, that where a corporation and its non-Filipino stockholders own stocks in a Philippine SEC registered enterprise, at least 60% of the capital stock outstanding and entitled to vote of each of both corporations must be owned and held by citizens of the Philippines, and at least 60% of the members of the board of directors of each of both corporations must be citizens of the Philippines, in order that the corporation shall be considered a Philippine national
Philippine SEC	the Philippine Securities and Exchange Commission
Philippines	Republic of the Philippines
PPP	public-private partnership
PSA	Philippine Standards on Auditing
PSE	the Philippine Stock Exchange, Inc.
Receiving Agent	Stock Transfer Service, Inc.
Regulation S	Regulation S under the U.S. Securities Act
ROPA	real and other properties acquired
SCCP	Securities Clearing Corporation of the Philippines
SMEs	small-and-medium-size enterprises

SM Group	SMIC and its subsidiaries, associated companies and affiliates, and its controlling shareholders
SMIC	SM Investments Corporation
SM Network	suppliers, tenants and other merchants that do business with the SM Group
SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended
Stock Transfer Agent	Stock Transfer Service, Inc.
Treasury	the Bank's treasury operations
Sy Family	Mr. Henry Sy, Sr., his wife, Mrs. Felicidad T. Sy, and their children Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy
US$ or U.S. Dollar	the lawful currency of the United States of America
U.S. Securities Act	the United States Securities Act of 1933, as amended

Summary

This summary highlights information contained elsewhere in this Prospectus. The following summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Prospectus. For a discussion of certain matters investors should consider in evaluating an investment in the Rights Shares, see "Risk Factors". Investors are recommended to read this entire Prospectus carefully, including the Bank's consolidated financial statements and related notes.

DESCRIPTION OF THE BANK

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. and Equitable PCI Bank, Inc., which took effect on May 31, 2007. As of September 30, 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 resources and total trust funds under management. The Bank's consolidated total resources were ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as of December 31, 2013, 2014 and 2015, respectively, and ₱2.2 trillion as of September 30, 2016 while total capital funds stood at ₱164.4 billion, ₱179.7 billion, ₱199.6 billion and ₱215.4 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 September 30, 2016, the Bank had a network of 1,084 operating domestic branches (including 115 ONB branches) and one foreign branch (in Hong Kong) with 105 more domestic branch licenses for deployment. Its network includes 26 overseas remittance and representative offices (including one full service branch in Hong Kong) as of October 31, 2016 and 3,524 automated teller machines ("ATMs") (including 206 ONB ATMs) and 265 cash accept machines ("CAMs") as of September 30, 2016. As of September 30, 2016, the SM Group was the Bank's largest shareholder group, with an effective common equity interest of approximately 54.57% of the Bank's issued common shares.

As of September 30, 2016 the Bank had a market capitalization on the PSE of approximately ₱400.6 billion. The Bank's consolidated Tier 1 capital adequacy ratio, tangible equity-to-assets ratio and total capital adequacy ratio were 11.4%, 9.8% and 12.9%, respectively, as of September 30, 2016.

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 September 30, 2016, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets under management. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,084 domestic branches (including 115 ONB branches). 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 corporate banking, retail banking, 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 large corporates, 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 that is expected to increase the recurring fee income contribution to the Bank's operating income. For the year ended December 31, 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 December 31, 2014. For the nine months ended September 30, 2016, the Bank's other operating income increased by 33.3% to ₱31.8 billion, from ₱23.8 billion for the nine months ended September 30, 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 distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of September 30, 2016, the Bank's network consists of 1,084 domestic branches (including 115 ONB branches), 3,524 ATMs (including 206 ONB ATMs), 265 CAMs, and one full service branch in Hong Kong. As of October 31, 2016, the Bank also has 26 remittance and representative offices (including one full service branch in Hong Kong) 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 it has 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 CASA deposit base (comprising demand and savings deposits) increased from ₱958.8 billion as of December 31, 2014 to ₱1,137.7 billion as of December 31, 2015, representing a growth of 18.7%. As of September 30, 2016, its low cost CASA deposit base further grew to ₱1,272.4 billion. As of September 30, 2016, December 31, 2015 and 2014, 70.0%, 68.4% and 64.2%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 57.6% as of December 31, 2013. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

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 and changing market demands. In addition, the Bank has invested heavily into its digital banking (online and mobile) strategy and offerings which positions the Bank to create new digital revenue opportunities that increase the Bank's performance and focuses on the customer experience. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification and efficient 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, with certain executives and officers gaining international banking experience with some of the leading global financial institutions. 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 and related mortgage products origination via referrals from residential real estate projects, 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 effective management of 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. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize 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, bancassurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

The Bank plans to continue to build its branch network across the Philippines, to 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. As a result of the Bank's continued expansion and acquisitions, as well as integration with newly-acquired entities, the Bank believes it has developed a substantial amount of operating leverage which will help it grow faster while keeping the growth of its operating expenses at a slower pace.

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 and continues to adopt 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, and will maintain its robust asset quality metrics compared to the wider Philippine banking sector. 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 accommodate future growth more easily, 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. In addition, the Bank will look to improve its digital strategy, in response to the growing impact of independent financial technology firms globally, by enhancing its digital, online and mobile banking capabilities and digital offering to customers. The Bank also expects to continue to invest in analytics and big data to further enhance its cross-selling efforts.

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 modernization 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 and product offering.

RECENT DEVELOPMENTS

Recent Offers and Capital Raising Transactions

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.

On October 24, 2016, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

Other Recent Developments

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation ("MMPC"), Sojitz Corporation ("SJC") and JACCS Co., Ltd. ("JACCS") to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 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 started accepting loan applications on September 1, 2016.

On June 14, 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.

In 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.

RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with the Bank, including:

- Risks Relating to the Bank and its Business
- Risks Relating to the Philippine Banking Industry
- Risks Relating to the Philippines
- Risks Relating to the Projections
- Risks Relating to the Rights Shares

Please refer to the section entitled "Risk Factors", which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of Rights Shares

BANK INFORMATION

The registered office of the Bank is BDO Corporate Center, 7899 Makati Avenue, Makati City 0726, Philippines. The Bank's telephone number is +(632) 840 7000 and its corporate website is www.bdo.com.ph. The information on the Bank's website is not incorporated by reference into, and does not constitute part of, this Prospectus.

Summary of 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 Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Statistical Data" and "Business" in this Prospectus. The selected financial information presented below as of and for the years ended December 31, 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 September 30, 2016 and for the nine month periods ended September 30, 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 December 31,				For the nine months ended September 30,		
	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	1,322.8	46,558	54,015	1,119.3
Trading and investment securities	9,164	7,333	7,477	154.9	5,640	6,097	126.3
Due from BSP and other banks	1,576	2,065	795	16.5	677	564	11.7
Others	181	278	19	0.4	12	19	0.4
	56,606	63,583	72,127	1,494.6	52,887	60,695	1,257.7
Interest expense on							
Deposit liabilities	10,421	10,441	12,526	259.6	9,095	10,124	209.8
Bills payable and other borrowings	3,019	1,917	2,640	54.7	2,007	2,122	44.0
	13,440	12,358	15,166	314.3	11,102	12,246	253.8
Net interest income	43,166	51,225	56,961	1,180.3	41,785	48,449	1,004.0
Impairment losses	7,001	5,114	3,000	62.2	2,682	2,568	53.2
Net interest income after impairment losses	36,165	46,111	53,961	1,118.1	39,103	45,881	950.8
Other operating income							
Trading gain — net	8,422	5,868	4,740	98.2	4,378	2,452	50.8
Service charges, fees and commissions	12,991	15,386	16,453	340.9	11,759	13,639	282.6
Miscellaneous	10,431	8,233	10,746	222.7	7,685	15,674	324.8
	31,844	29,487	31,939	661.8	23,822	31,765	658.2
Other operating expenses							
Employee benefits	16,480	18,081	21,120	437.7	13,941	16,147	334.6
Occupancy	4,948	5,704	6,675	138.3	4,850	5,639	116.9
Taxes and licenses	4,769	5,780	6,683	138.5	4,660	5,323	110.3
Other operating expenses	17,062	18,965	20,666	428.2	17,445	25,718	532.9
	43,259	48,530	55,144	1,142.7	40,896	52,827	1,094.7
Income before pre-acquisition income	24,750	27,068	30,756	637.2	22,029	24,819	514.3
Pre-acquisition income	—	—	—	—	—	(489)	(10.1)
Income before tax	24,750	27,068	30,756	637.2	22,029	24,330	504.2
Income tax expense	2,104	4,240	5,701	118.1	4,400	5,009	103.8
Net income after tax	22,646	22,828	25,055	519.1	17,629	19,321	400.4

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on September 30, 2016 of ₱48.257 to US$1.00.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,				As of September 30,	
	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	885.4	27,820	576.5
Due from the *Bangko Sentral ng Pilipinas*	408,383	269,542	271,808	5,632.5	313,627	6,499.1
Due from other banks	26,939	45,621	24,837	514.7	31,550	653.8
Trading and investment securities	227,910	221,510	225,759	4,678.3	278,284	5,766.7
Loans and other receivables — net	922,553	1,212,930	1,382,752	28,653.9	1,478,874	30,645.8
Office premises, furniture, fixtures and equipment	17,908	21,093	24,995	518.0	26,381	546.7
Investment properties	10,381	13,861	14,633	303.2	15,168	314.3
Equity investments — net	4,839	5,332	5,702	118.2	4,470	92.6
Deferred tax assets	5,941	6,033	6,079	126.0	5,943	123.2
Other resources — net	20,100	26,385	31,960	662.3	25,746	533.5
Total resources	1,672,778	1,863,649	2,031,254	42,092.4	2,207,863	45,752.2
Deposit liabilities						
Demand	79,601	85,807	104,066	2,156.5	104,956	2,174.9
Savings	695,243	872,976	1,033,652	21,419.7	1,167,457	24,192.5
Time	570,489	533,499	526,135	10,902.8	544,037	11,273.7
Total deposit liabilities	1,345,333	1,492,282	1,663,853	34,479.0	1,816,450	37,641.2
Bills payable	94,243	100,361	97,543	2,021.3	78,150	1,619.5
Subordinated notes payable	3,007	10,030	10,030	207.8	10,030	207.8
Insurance contract liabilities	—	—	—	—	19,228	398.4
Other liabilities	65,841	81,307	60,215	1,247.8	68,570	1,420.9
Total liabilities	1,508,424	1,683,980	1,831,641	37,955.9	1,992,428	41,287.9
Equity	164,354	179,669	199,613	4,136.5	215,435	4,464.3
Total liabilities and equity	1,672,778	1,863,649	2,031,254	42,092.4	2,207,863	45,752.2

Note:

(1) Translations from Pesos to US dollars for the convenience of the reader have been made at the BSP Rate on September 30, 2016 of ₱48.257 to US$1.00.

SELECTED FINANCIAL RATIOS

Selected financial ratios	For the year ended December 31, 2013	2014	2015	For the nine months ended September 30, 2015	2016
	(in percentages except Earnings per Share)				
Return on assets[(1)]	1.6	1.3	1.3	1.3	1.2
Return on shareholders' equity[(2)]	14.0	13.4	13.4	12.8	12.4
Return on average common equity[(3)]	14.3	13.6	13.6	13.0	12.6
Net interest margin[(4)]	3.3	3.2	3.2	3.1	3.3
Cost-income ratio[(5)]	57.7	60.1	62.0	62.3	65.9
Loans to deposits[(6)]	65.9	71.2	75.3	74.7	76.3
Tier 1 capital adequacy ratio[(7)]	14.3	12.6	11.7	11.8	11.4
Total capital adequacy ratio[(8)]	15.5	14.4	13.3	13.4	12.9
Total equity to total resources [(9)]	9.8	9.6	9.8	9.9	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	1.3
Allowances for probable loan losses to total loans[(12)]	2.8	2.5	2.0	2.2	1.9
Allowances for probable loan losses to total non-performing loans (NPL coverage ratio)[(13)]	170.7	188.4	166.1	181.5	142.8
Earnings per share (₱)[(14)]	6.22	6.27	6.84	4.80	5.20

Notes:

(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 qualifying 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 (i.e., total receivables from customers).

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

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

The Rights Offer

The Bank is offering for subscription 716,402,886 Rights Shares by way of a stock rights offering to Eligible Shareholders on a preemptive rights basis at the proportion of one Rights Share for every 5.095 existing Common Shares held as of the Record Date at the Offer Price of ₱83.75 per Rights Share. Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Such fractions will be aggregated and sold for the benefit of the Bank. The Rights Shares may be subscribed by Eligible Shareholders of record of the Bank as of the Record Date. Below are the key dates of the Offer.

Pricing Date................................	January 3, 2017
Ex-Date	January 5, 2017
Record Date................................	January 10, 2017, 12:00 p.m. (Manila time)
Offer Period................................	January 16, 2017, 9:00 a.m. to January 24, 2017, 12:00 p.m. (Manila time)
Listing Date................................	January 31, 2017

The dates listed above may be changed at the discretion of the Bank, the Joint Global Coordinators and the Joint Bookrunners, subject to the approval of the PSE.

SM Investments Corporation will subscribe or procure that a single related shareholder (an "SM Group Shareholder") or any number of SM Group Shareholders (in which case, such SM Group Shareholders may subscribe to such remaining Rights Shares in such proportion as they may determine in their sole discretion) will subscribe for any remaining Rights Shares unsubscribed after the mandatory second round of the Offer as part of the stock rights offering, to ensure that the Rights Shares covered by the Offer are fully subscribed. In the event any SM Group Shareholder is unable to subscribe and fully pay for any such remaining unsubscribed Rights Shares after the mandatory second round of the Offer, SM Investments Corporation shall procure that such remaining Rights Shares are subscribed and paid in full. To the extent that any Rights Shares are not taken up by the SM Group Shareholders after the mandatory second round of the Offer, such Rights Shares, subject to certain conditions, will be taken up by the Issue Manager and Domestic Underwriter who shall procure purchasers, or failing which, shall purchase the unsubscribed shares. See "Plan of Distribution".

Summary of the Offer

Issuer..	BDO Unibank, Inc., a banking corporation organized under the laws of the Republic of the Philippines.
Rights Shares..............................	716,402,886 Common Shares of the Bank with a par value of ₱10.00 per share. The Rights Shares shall rank equally in all respects with the existing Common Shares, including the right to receive all dividends or distributions made, paid or declared after a valid subscription agreement is perfected between the Bank and a buyer as evidenced by the written acceptance by the Bank of the application to subscribe (the "Application") of the buyer and other conditions, including listing of the Rights Shares on the PSE. Until the listing of the Rights Shares on the PSE, such Rights Shares offered pursuant to the Offer will be non-transferable and not acceptable for trading.
The Offer....................................	The Bank is offering Common Shares for subscription to Eligible Shareholders on a preemptive rights basis. SM Investments Corporation will subscribe or procure that a single related shareholder (an "SM Group Shareholder") or any number of SM Group Shareholders (in which case, such SM Group Shareholders may subscribe to such remaining Rights Shares in such proportion as they may determine in their sole discretion) will subscribe for any remaining Rights Shares unsubscribed after the mandatory second round of the Offer as part of the stock rights offering, to ensure that the Rights Shares covered by the Offer are fully subscribed. In the event any SM Group Shareholder is unable to subscribe and fully pay for any such remaining unsubscribed Rights Shares after the mandatory second round of the Offer, SM Investments Corporation shall procure that such remaining Rights Shares are subscribed and paid in full. To the extent that any Rights Shares are not taken up by the SM Group Shareholders after the mandatory second round of the Offer, such Rights Shares, subject to certain conditions, will be taken up by the Issue Manager and Domestic Underwriter who shall procure purchasers, or failing which, shall purchase the unsubscribed shares. See "Plan of Distribution".
Offer Price..................................	The Rights Shares are being offered at a price of ₱83.75 per share. The Offer Price is computed based on the 15-trading day volume-weighted average price ("VWAP") of the Bank's Common Shares listed on the PSE prior to the Pricing Date, subject to a discount of 23.4%.
Offer Period................................	The Offer Period shall commence on January 16, 2017, 9:00 a.m. and end on January 24, 2017 at 12:00 p.m., Manila time. The Bank, the Joint Global Coordinators and the Joint Bookrunners reserve the right to extend or terminate the Offer Period with the approval of the PSE.

Minimum Subscription	Each Application must be for a minimum of one Rights Share.
Eligible Shareholders	The Rights Shares are being offered to eligible existing holders of record of Common Shares as of the Record Date. Holders of Common Shares who are eligible to participate in the Offer are: (i) holders located inside the Philippines and (ii) holders located in jurisdictions outside the Philippines and the United States where it is legal to participate in the Offer under the securities laws of such jurisdiction. The Common Shares of the Bank may be held by any person or entity, regardless of nationality, subject to the right of the Bank to reject an Application or reduce the number of Rights Shares applied for subscription or purchase if the same will cause the Bank to be in breach of the Philippine ownership requirement under relevant Philippine laws.
Rights Entitlement	Each eligible holder of Common Shares is entitled to subscribe to one Rights Share for every 5.095 Common Shares held as of the Record Date (the "Entitlement Shares"). Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of the Rights Shares. Such fractions will be aggregated and sold for the benefit of the Bank. Subscription to the Rights Shares in certain jurisdictions may be restricted by law. Foreign investors interested in subscribing or purchasing the Rights Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Rights Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Rights Shares. The offer process in relation to the Entitlement Shares shall also be known as the first round of the Offer.

Additional Subscription...............	If an applicant fully subscribes to his Entitlement Shares, and subject to the availability of unsubscribed Rights Shares arising from the failure of the other eligible stockholders to fully exercise their Rights Shares entitlement, the applicant may simultaneously apply for an additional subscription of the unsubscribed Rights Shares (the "Additional Rights Shares"). The Additional Rights Shares are payable in full upon submission of the Application. If the aggregate number of Additional Rights Shares available for subscription equals or exceeds the aggregate number of Additional Rights Shares so subscribed for, an applicant will be allocated the number of Additional Rights Shares indicated in his Application. If the aggregate number of Additional Rights Shares available for subscription is less than the aggregate number of Additional Rights Shares so subscribed for, the available Additional Rights Shares will be allocated to applicants who have applied to subscribe for such Additional Rights Shares. Such allocation will be made at the discretion of the Bank primarily based on each applicant's original shareholdings in the Bank as of the Record Date relative to the original shareholdings of all other applicants for Additional Rights Shares as of such Record Date, provided that no applicant for Additional Rights Shares shall be allocated more Additional Rights Shares than the number for which such applicant has applied. There can be no guarantee made as to the number of Additional Rights Shares an applicant may be allocated. A subscription for Additional Rights Shares is irrevocable on the part of the applicant and may not be cancelled or modified by such applicant. The offer process in relation to the additional subscription shall also be known as the second round of the Offer.
Restrictions on Ownership	The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities. The Bank is subject to Philippine legislation restricting the aggregate foreign ownership to 40% of its outstanding Common Shares. Accordingly, the Bank cannot allow the issuance or the transfer of its Common Shares which may result in the Bank ceasing to be at least 60% owned by Philippine Nationals.
Procedure for Application	All Applications shall be evidenced by the Application, duly executed by an authorized signatory of the applicant and the corresponding payment for the Rights Shares covered by the Application and all other required documents. The duly executed Application and required documents should be submitted during the Offer Period to the Stock Transfer Agent and Receiving Agent, Stock Transfer Service, Inc., at their

office at 6784 Unit D 34th Floor Rufino Pacific Tower, Ayala Avenue, Makati, Metro Manila, or to designated BDO branches. Eligible Shareholders of certificated shares that are located outside the Philippines and the United States may submit an Application to the Receiving Agent by email or fax before the end of the Offer Period.

If the applicant is an eligible individual shareholder, the applicant must submit:

- a properly completed Application; and
- two forms of Government-issued identification, such as a Philippine passport or driver's license.

If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by a duly notarized corporate secretary's certificate:

- setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Rights Shares indicated in the Application;
- identifying the designated signatories authorized for the purpose, including his or her specimen signature; and
- certifying the percentage of the applicant's capital or capital stock held by Philippine Nationals.

If the applicant is a non-Filipino (individual shareholder or corporation, partnership or trust account), the Application must be accompanied by a certification letter (in the form attached to the Application) representing and warranting that

- (i) the applicant is not a resident in the United States; and
- (ii) the applicant's purchase of the Rights Shares will not violate the laws of their resident jurisdiction.

Applications must be received by the Receiving Agent or by designated branches of the Bank not later than January 24, 2017, 12:00 p.m., Manila time, the last day of the Offer Period. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission, and shall be subject to the terms and conditions of the Offer as stated in the Prospectus and in the Application. The actual subscription and/or purchase of the Rights Shares shall become effective only upon the actual listing of the Rights Shares on the PSE.

Payment Terms............................	The Rights Shares must be paid for in full to the designated "BDO Rights Offer" settlement account upon submission of the Application. Payment must be made by (i) check drawn against any BSP-authorized agent bank in Metro Manila or (ii) debit to an existing BDO account. Certificated shareholders residing outside of the Philippines and outside of the United States may submit their payment by way of remittance in favor of the Receiving Agent. Check payments must be dated as of the date of submission of the Application and crossed "Payee's Account Only". Check payments for regional clearing will not be accepted.
Acceptance/Rejection of Applications	The Bank has full discretion to accept or reject all or a portion of any Application under the terms and conditions of the Offer. The actual number of Rights Shares to which any applicant may be entitled is subject to the confirmation of the Bank. Applications where checks are dishonored upon first presentment and Applications which do not comply with the terms of the Offer shall be rejected. Moreover, payment received upon submission of an Application does not constitute approval or acceptance by the Bank of the Application. An Application, when accepted, shall constitute an agreement between the applicant and the Bank for the subscription to the Rights Shares at the time, in the manner and subject to terms and conditions set forth in the Application and those described in the Prospectus. Notwithstanding the acceptance of any Application by the Bank, the actual subscription and/or purchase by an applicant of the Rights Shares will become effective only upon listing of the Rights Shares on the PSE. If such condition is not fulfilled on or before the periods provided above, all application payments will be returned to the applicants without interest and, in the meantime, the said application payments will be held in a separate bank account with the Receiving Agent.
Refunds	In the event that an Application is rejected or the number of Rights Shares to be received is less than the number covered by this Application, then the Bank shall refund payment made thereon, without interest, within five (5) Banking Days from the end of the Offer Period via check payable to the relevant applicant. Such refund checks shall be made available for pick up at the offices of the Receiving Agent, Stock Transfer Service, Inc., at 6784 Unit D 34th Floor Rufino Pacific Tower, Ayala Avenue, Makati, Metro Manila. Refund checks that remain unclaimed after 30 days from the date such checks are made available for pick up shall be mailed at the applicant's risk to the address indicated in the Application.

Issuance and Transfer Taxes	All documentary stamp taxes applicable to the original issuance of the Rights Shares shall be for the sole account of the Bank.
Registration and Lodgment of Shares with the Philippine Depository & Trust Corp	Rights Shares are required to be lodged with the PDTC. Applicants must provide the required information in the Application to effect the lodgment. Applicants may request their shares in certificated form and receive stock certificates evidencing their investment in the Rights Shares through their respective brokers after full payment, lodgment and listing of the Rights Shares and in accordance with existing procedure. Any expense to be incurred in connection with such issuance of certificates shall be borne by the applicant.
Registration of Foreign Investments	BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance is to be sourced from the domestic banking system. The registration with the BSP of all foreign investments in the Rights Shares shall be the responsibility of the foreign investor.
Lock-up	The Bank has agreed with Credit Suisse, UBS, Citigroup, Goldman Sachs and HSBC (collectively, the "International Bookrunners") that, other than (i) in connection with the issuance of Rights Shares for purposes of the Offer, (ii) for issuances of Common Shares in connection with the Bank's outstanding preferred shares convertible into Common Shares or (iii) for issuances of Common Shares pursuant to the Bank's employee stock option plan, neither the Bank nor any person acting on its behalf will, for a period of 90 days after the Listing Date, without the prior written consent of the International Bookrunners, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options.
Listing and Trading.....................	Subject to regulatory approvals, all of the Rights Shares are expected to be listed on the PSE on January 31, 2017. Trading is expected to commence on the same date that the relevant Rights Shares are listed on the PSE.

Timetable	The indicative timetable of the Offer is as follows: Pricing Date: January 3, 2017 Ex-Date: January 5, 2017 Record Date: January 10, 2017, 12:00 p.m. (Manila time) Offer Period: January 16, 2017, 9:00 a.m. to January 24, 2017, 12:00 p.m. (Manila time) Listing Date: January 31, 2017 The dates listed above are subject to market and other conditions and may be changed at the discretion of the Bank, the Joint Global Coordinators and the Joint Bookrunners, subject to the approval of the PSE.
Domestic Underwriter's Firm Commitment to Purchase	The Issue Manager and Domestic Underwriter shall purchase or procure qualified institutional buyers to purchase all of the unsubscribed Rights Shares that are not taken up by the SM Group Shareholders after the mandatory second round of the Offer, to ensure that the Rights Shares covered by the Offer are fully subscribed. See "Plan of Distribution".
Issue Manager and Domestic Underwriter	BDO Capital & Investment Corporation
Joint Global Coordinators	BDO Capital, Credit Suisse and UBS
Joint Bookrunners	BDO Capital, Citigroup, Credit Suisse, Goldman Sachs, HSBC and UBS
Stock Transfer Agent and Receiving Agent	Stock Transfer Service, Inc.
Independent Auditor	Punongbayan & Araullo
External Legal Counsel to the Company	Martinez Vergara Gonzalez & Serrano

Risk Factors

An investment in the Offer described in this Prospectus involves a number of risks. The price of the securities can and does fluctuate, and any individual security may experience upward or downward movements, and may become valueless. There is inherent risk that losses may be incurred rather than profit as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying and selling price of these securities.

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Rights Shares. This section entitled "Risk Factors" does not purport to disclose all of the risks or other significant aspects of investing in the Rights Shares. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Bank or that are currently considered immaterial could have a material adverse effect on the Bank's business, results of operations, financial position and prospects and on the Rights Shares and the investors may lose all or part of their investment. Investors may request publicly available information on the Rights Shares and the Bank from the Philippine SEC and PSE.

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the Offer or the nature of risks involved in purchasing, holding and trading the Rights Shares. Each investor should consult his or her own counsel, accountant and other advisers as to legal, tax, business, financial and related aspects of an investment in the Rights Shares. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

RISKS RELATING TO THE BANK AND ITS 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 (including unearned interests or discounts) expanding by 18.5%, 19.5% and 17.4% in the years ended December 31, 2013, 2014 and 2015, respectively, and 15.5% for the nine months ended September 30, 2016 (compared to September 30, 2015). The Bank's total resources reached ₱1.0 trillion as of December 31, 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 customer deposits, capital and total trust funds under management. Total resources thereafter stood at ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as of December 31, 2013, 2014 and 2015, respectively, and ₱2.2 trillion as of September 30, 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 cater better 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 and expanding into new provincial areas in the Philippines 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 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 (including employees absorbed from acquired entities) sufficiently, to adhere to and comply with 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 September 30, 2016, the Bank's total exposure to borrowers (or gross loans and receivables to customers) was ₱1,412.1 billion. The ten largest borrower groups in aggregate accounted for 21.2% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 13.8% 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 September 30, 2016, the Bank's single borrower limit was ₱51.1 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 September 30, 2016 accounted for 2.4% of the Bank's total exposure and 16.0% of the Bank's total equity. The largest borrower group as of September 30, 2016 accounted for 2.6% of the Bank's total exposure and for 17.0% 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".

Under BSP Circular 700, the total amount of loans, credit accommodations and guarantees may be increased by an additional 25.0% of a bank's net worth for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the Philippine government duly certified by the Secretary of Socio-Economic Planning. BSP Circular 700 is set to expire on December 28, 2016. In the event that the effectivity of BSP Circular 700 is not extended, the Bank believes that the same will not be a major hindrance to financing PPP projects as project proponents may create a consortium of principals which will allow the Bank to continue lending to such projects. There can be no guarantee, however, that the BSP will not issue new regulations or guidelines with stricter lending limits.

The Bank extends loans to various sectors in the Philippines. The table below sets out the Bank's five largest industry exposures (net of unearned interest or discount) as of September 30, 2016.

Rank	Industry[1]	Amount	Per cent. of Total Exposure to Borrowers
		(₱ millions)	
1	Real estate activities	211,770	15.0
2	Wholesale and retail trade, repair of motor vehicles and motorcycles	198,746	14.1
3	Manufacturing	174,183	12.3
4	Electricity, gas, steam and air-conditioning supply	146,947	10.4
5	Other service activities	122,237	8.7
	Total	853,883	60.5

Note:

(1) Industry classifications are in accordance with the Philippine Standard Industrial Classification Code.

The Bank's exposure to these five sectors, totaling ₱853.9 billion, constituted 60.5% of the Bank's total loan portfolio (net of unearned interest or discount). 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 provisioning expense for impairment of assets, which may adversely affect the Bank's business, financial condition, results of operations and capital adequacy.

The Bank's results of operations have been, and continue to be, affected by the level of its NPLs. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, the Bank's provisioning expense for impairment of assets amounted to ₱7.0 billion, ₱5.1 billion, ₱3.0 billion and ₱2.6 billion, respectively, which represented 16.2%, 10.0%, 5.3% and 5.3%, respectively, of net interest income in those periods and 0.8%, 0.5%, 0.2% and 0.2%, respectively, of gross loans in those periods. A slowdown in global growth 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 loan loss provisions.

The Bank's consolidated NPLs increased by 11.2% to ₱15.8 billion as of December 31, 2015 (representing 1.2% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱14.2 billion as of December 31, 2014, and increased by 22.5% to ₱18.4 billion as of September 30, 2016 (representing 1.3% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱15.0 billion as of September 30, 2015. As of December 31, 2013, 2014, 2015 and September 30, 2016, the Bank's NPL coverage ratio was 170.7%, 188.4%, 166.1% and 142.8%, respectively. 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. See "Assets and Liabilities — Non-Performing Loans and ROPA".

The Bank believes that it has set aside adequate provisions with an NPL coverage ratio of 142.8% as of September 30, 2016 compared to the industry's average NPL coverage ratio of 113.2% (135.6% for universal and commercial banks only), as of September 30, 2016 and reflected current valuations as regards its investment portfolio. While the financial markets have stabilized, 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 recognizes 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 recognized 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 loss provisions 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 requires the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. Further, in preparation for IFRS 9, the Bank currently estimates provisioning based on a loan loss methodology. While the Bank believes, based on its initial assessment, that the implementation of IFRS 9 in 2018 will not have any material impact on its loan loss provisioning, there is no guarantee that such new accounting standards will not result in the Bank recognizing significantly higher loan loss provisions 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 loan loss 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 September 30, 2016, the Bank's secured loans represented 28.7% of the Bank's total gross customer loans, and 46.6% of the collateral on these secured loans consisted of real estate 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 realized 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 current prevailing 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 loan loss provisions may be inadequate and the Bank may need to increase such provisions. Any increase in the Bank's loan loss provisions could adversely affect its business, financial position, results of operations and capital adequacy ratios.

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 realize 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 for banks and BSP regulations, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Bank may incur expenses such as legal fees and taxes associated with such realization.

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

The Bank has significant exposure to the Philippine property and real estate 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 estate 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 estate properties are consolidated in the Bank's name and booked as ROPA. The Philippine property market has been 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 favorable macroeconomic conditions, increasing home ownership in the Philippines and strong demand from overseas Filipino workers ("OFWs") and their families, 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 of September 30, 2016, BDO's home loan default rate was at 2.3%, compared to the average industry rate of 2.8%.

In 2015 and for the nine months ended September 30, 2016, the Bank sold ₱2.9 billion and ₱1.7 billion worth of acquired assets, respectively, and intends to continue with its strategy of gradually reducing ROPA holdings. As a result, the Bank recorded net ROPA of ₱7.3 billion as of December 31, 2015 and ₱7.6 billion as of September 30, 2016, representing 0.4% and 0.3%, respectively, of the Bank's total resources. In prior years, the Bank's net ROPA was ₱9.0 billion and ₱8.8 billion as of December 31, 2013 and 2014, respectively, representing 0.5% and 0.5% of the Bank's total resources as of such dates.

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 realize 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 March 23, 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 strengthen the country's campaign against money laundering. These measures included criminalizing terrorist financing activities as well as allowing the Government, upon determination of probable cause, to examine bank accounts or investments ex parte, 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 Peso-denominated reserve requirement deposits placed with the BSP. Meanwhile, in its meeting on May 8, 2014, the Monetary Board increased the reserve requirement on Peso-denominated balances by one percentage point to 20% effective May 30, 2014 following the one percentage point hike earlier to 19% effective on April 4, 2014 on efforts to rein in rising inflationary pressures. 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 socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines.

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. As of September 30, 2016, the Bank's total real estate loans (comprised of real estate loans to individuals, land developers and other borrowers for the purpose of financing residential and commercial real estate acquisitions and developments and the construction of buildings and structures) accounted for 19.3% of its total loan portfolio, which is below the real estate exposure limit of 20%. 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 translated to reduced loans to the sector as banks tightened standards in line with BSP guidelines.

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 January 1, 2014 and banning other fiduciary business including agency accounts and investment management activities access to the SDA facility. The new rules required banks to wind down all SDA placements not consistent with the BSP memorandum by at least 30% by July 31, 2013, until these were eventually phased out on November 30, 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 from 3.5% to 2.0%. Further, while Unit Investment Trust Funds ("UITFs") are currently allowed to participate in SDA facilities, such participation will be gradually wound down, with 50% compliance expected by 2016 and 100% compliance expected by June 2017. Once access to SDA facilities is disallowed, UITF levels may decrease in the short-term. 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. Beginning June 3, 2016, the BSP shifted its monetary operations to an interest rate corridor ("IRC") system. The Special Deposit Account ("SDA") windows were replaced by the overnight deposit facility ("ODF"). On June 3, 2016, the interest rate for the ODF facility was set by the Monetary Board at 2.5%, which remained unchanged from the previous SDA rate. On November 10, 2016, the Monetary Board maintained the interest rate on the BSP's overnight reverse purchase ("RRP") facility at 3.0%. The corresponding interest rate on the overnight lending facility was also kept the same at 3.5%.

On February 15, 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 expanded the AMLA covered institutions and crimes. This law took effect on March 7, 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 above. 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.

The recent controversy involving the US$81 Million heist of the Bangladesh central bank account prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose the further amendment of the AMLA. The bill submitted to the Philippine Congress seeks to include casino operators within the coverage of the law, and to require casino operators to report covered and suspicious transactions to the Anti-Money Laundering Council ("AMLC"). The bill also proposes to prohibit casino operators to engage in any transaction involving the conversion of money from one currency to another for a purpose other than gaming. Under the bill, tax evasion is considered a predicate crime to money laundering. The bill also empowers the regulators by authorizing the AMLC to issue subpoenas and freeze orders, and provides for stricter customer identification requirements and record keeping systems.

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 BSP ruling as they will have to absorb any losses from the change in valuation.

The Bank signed up on April 25, 2014 ahead of the July 1, 2014 deadline to participate in the 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 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 SDA prior to the IRC, is now replaced by the Overnight Deposit Facility ("ODF") whose rate remains at 2.5%, and forms the lower boundary 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 boundary 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 were purely operational in nature to allow it to conduct monetary policy effectively.

On June 23, 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. The circular 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, 2subject to certain 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 amended the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter. The circular further excludes loans granted by a bank to its DOSRI for the purpose of project finance from the thirty percent (30%) unsecured individual ceiling during the project gestation phase. See "Banking Regulation and Supervision" and "Related Party Transactions" for further detail on BSP rules and regulations affecting Philippine banks and their operations.

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.

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, NPLs 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 investments in securities held at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") securities and held-to-maturity ("HTM") securities (comprised primarily of Philippine Government securities). As of September 30, 2016, the Bank's total Philippine Government securities balance was ₱181.2 billion (representing 64.2% of the Bank's investment securities portfolio), of which, ₱60.5 billion was Peso-denominated (representing 21.4% of the Bank's investment securities portfolio). 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. Other debt securities, non-debt securities and derivative financial assets amounted to ₱73.7 billion, ₱20.1 billion and ₱7.3 billion, respectively, as of September 30, 2016, representing 26.1%, 7.1% and 2.6%, respectively, of the Bank's investment securities portfolio.

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 trading and investment losses in the future in connection with its trading and investment activities.

In addition, the varying gains recognized 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 December 31, 2008 (which represented 5.1% of total operating 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 stabilized and global interest rates declined, the Bank generated gains from trading activity, with trading gains representing 7.3%, 10.7% and 7.2% of total operating income for the years ended December 31, 2009, 2010 and 2011, respectively. The Bank experienced trading gains of ₱8.4 billion, ₱5.9 billion and ₱4.7 billion for the years ended December 31, 2013, 2014 and 2015, respectively, representing 11.2%, 7.3% and 5.3% of total operating income for such periods, respectively. For the nine months ended September 30, 2016, the Bank recorded trading gains of ₱2.5 billion, representing 3.1% of total operating income for the same period. Nevertheless, a slowdown in domestic or global growth may make it more difficult for the Bank to generate substantial gains from its trading activities.

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 December 31, 2013, 2014, 2015 and September 30, 2016, 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.

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 all of its regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. As of December 31, 2015, the fair value of the retirement plan assets of the Bank was ₱20.1 billion and the net present value of the obligation was at ₱18.7 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit asset of ₱1.4 billion for 2015.

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 amortizes 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, and expected synergies may not be fully realized.

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 June 9, 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 September 30, 2016, the Bank acquired full interest in GPHC. GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp. ("BDO Life"), and BDO Life Assurance Company Inc., respectively.

On June 14, 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 September 30, 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 maximize 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 realized 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, leading to potential deposit attrition from target entity customers; and
- The integration difficulties or other factors relating to the rationalization of the business cause unexpected business interruption.

Moreover, the Bank continually examines opportunities for acquisitions in the future as a means of accelerating growth or to expand its market coverage. Any future acquisitions or mergers 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, rationalize operations, or develop the skills required for new businesses and markets, some or all of which could have an adverse effect on its business. Further, while the Bank believes that the transaction agreements relating to its mergers or acquisitions contain provisions that protect the Bank against unknown and known liabilities, there can be no assurance that the Bank will not be subject to such liabilities in the future.

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 generally experienced above industry-average 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 evolve and improve its operational, financial and internal controls across the organization. In particular, continued expansion increases the exposure to certain additional risks, including:

- Difficulties raising additional capital for expansion in light of financial market disruptions might increase leverage if equity funds from existing or new shareholders are not available when needed;
- Difficulties arising from operating a significantly larger and more complex organization and expanding into new geographic areas, territories and market segments;
- 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 realize expected profitability or growth in new ventures and market segments;

- The failure to realize expected synergies and cost savings, particularly in relation to the Bank's recent inorganic expansion initiatives;
- Difficulties arising from coordinating and consolidating corporate and administrative functions, including integration of internal controls and procedures;
- Changes in technology and the emergence of digital banking competition;
- 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 financial and business connections, and the interests of such shareholder group may differ significantly from the interests of the Bank's other shareholders.

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 of September 30, 2016, SMIC directly owned approximately 40.12% of the Bank's common shares, and Multi Realty Development Corporation, Sybase Equity Investments Corporation and SM Prime Holdings Inc., companies affiliated with the SM Group, held 6.68%, 5.52% and 2.06%, respectively, of the Bank's issued common shares. Through these, other entities and certain Sy Family members, the SM Group owned directly and indirectly 54.57% of the Bank's common shares as of September 30, 2016, 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 of September 30, 2016, the Bank's loans to the SM Group amounted to ₱25.2 billion, or 1.8% of the Bank's total loan portfolio (including secured non-risk loans not subject to the BSP's single borrower limit), which is below the BSP's single borrower limit for related party transactions. The Bank's loans to the SM Group are on commercial, arm's-length terms. While the Bank is not dependent 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/ATM 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 (CASA deposits) to help fund its future loan growth. 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 or increase their deposits in trust accounts, while small, mid-market and large corporate customers may reduce their deposits in order to fund projects in a favorable economic environment or the Bank may need to increase the rates it offers to its customers to minimize deposit outflows, which would have an adverse impact on its cost of funding. 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 (including external sources), 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 and at a time of increased disruption to the financial services sector from the emergence of financial technology firms. 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 centralized database to support its domestic and international business operations. The core banking system is linked to the Bank's electronic channels including ATMs, online banking, and mobile banking, which provides online real-time transaction processing. The data on the Bank's core banking system, centralized 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 in digital banking. 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 minimize 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 securitize, sell, purchase or syndicate particular loans or loan portfolios and availability of liquid funding sources with which to originate lending activities. 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 loan loss provisions. 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 an adverse effect on its business, financial position, results of operations and capital adequacy ratios.

The Bank is subject to interest rate risk.

The Bank realizes income from the margin between interest-earning assets (due from BSP on balances above the minimum reserve requirement, 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, and other forms of borrowings). 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 organization, 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 September 30, 2016, the Bank had ₱386.4 billion of foreign assets and ₱379.8 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 of December 31, 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 of December 31, 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 favorable 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 August 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 October 2016, Moody's reaffirmed the Bank's Counterparty Risk Assessment of Baa1(cr)/P-2(cr) given by Moody's in November 2015, 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. On November 2, 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 October 10, 2016, the Bank had 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 April 10, 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 utilizing 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 and political 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 Common Shares.

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 2016 has led to the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso), 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 June 23, 2016, where the UK public voted by a majority in favor 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 desynchronization 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.

The results of the recently held US Presidential elections shocked global markets, significantly affecting stock and futures indices and currencies globally, on and shortly after election day. Moreover, the election of Donald J. Trump as the next US President has been believed by certain economists as creating uncertainties in the direction of the US economy and US trade policies, which could adversely affect the global market.

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.

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 liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. 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 September 30, 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 July 15, 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 in some cases resulting in excess capital that can be leveraged for asset growth and market share gains; 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 for universal and commercial banks were 2.2%, 1.9%, 1.7% and 1.6% as of the years ended December 31, 2013, 2014 and 2015 and September 30, 2016, respectively.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP as of September 30, 2016, past due ratios in the Philippine universal and commercial banking system was at 1.9%, an improvement from a 3-5% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 135.6% as of September 30, 2016, higher than the 96-126% range reported from 2009 to 2011, according to the BSP. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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 January 1, 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 with no transition period are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks. In addition the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 20% to be held with the BSP (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.5% of local currency deposit balances).

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 Bank may experience difficulties due to the implementation of such standards, including Basel III, in the Philippines.

The BSP Monetary Board approved major revisions to the country's risk-based capital adequacy framework on July 1, 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, securitization 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. The BSP adopted Basel III on January 1, 2014 with higher limits and stricter minimum requirements for regulatory capital relative to international standards and with no phase-in period.

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 until January 2019, 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 July 1, 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On January 1, 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on January 1, 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements by early 2017.

Although the net proceeds from the Offer are expected to result in an increase in the Bank's CET1 ratio, to the extent that BDO Capital takes up or purchases any unsubscribed Rights Shares that are not taken up by the SM Group Shareholders after the mandatory second round of the Offer, such purchase or take up of shares shall be treated as a deduction from the Bank's CET1 capital under Basel III regulations, which could partially offset any increase in the Bank's CET1 ratio post-Offer.

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".

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ("LTV") ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Group's business, financial condition and results of operations.

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. This may also lead banks in the Philippines to conduct capital raising exercises. 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 March 18, 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 US$780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organizations 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 April 25, 2014 as a PFFI and then amended its FATCA status on March 27, 2015 to Registered Deemed Compliant Foreign Financial Institution under a Model 1 Intergovernmental Agreement ("IGA").

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.

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 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 outflow 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 December 31, 2015, according to BSP data, the Peso has depreciated by 5.7% to ₱47.166 per US$1 from ₱44.617 per US$1 at the end of 2014. As of December 29, 2016, the Peso was at ₱49.813 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 March 27, 2014, the Government and the Moro Islamic Liberation Front ("MILF") signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On September 10, 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 March 27, 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 May 13 and 14, 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.

The Philippine Presidential elections were recently held on May 9, 2016, and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a 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, including with respect to Philippine foreign policy, 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 destabilize 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 organization, 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 destabilize 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 organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize 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 September 2, 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organization and/or their allies were 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 destabilize parts of the country and adversely affect the country's economy. Any such destabilization 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 Organization) 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. Under the IRC implemented by the BSP in June 2016, the ODF (the lower boundary of the IRC) was kept at 2.5% while the OLF (the upper boundary of the IRC), was brought down to 3.5% from 6.0% under the RP. In its meeting last December 8, 2016, the Monetary Board maintained the foregoing rates. However, interest rates may increase in the future as price pressures begin building as a result of strong economic growth.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. 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 and the Bank's ability to earn excess trading gains as revenue. 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 minimize 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 in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.

Investors may face difficulties enforcing judgments against the Bank.

The Bank is organized under the laws of the Republic of the Philippines. A substantial portion of the Bank's assets are located in the Philippines and outside of the United States. 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 Rights Shares. 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 recognized 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.

Overseas shareholders may be subject to restrictions on repatriations of Pesos received with respect to the Common Shares

Under BSP regulations, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange within the Philippine banking system. In particular, a foreign investment must be registered with the BSP if foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon is sourced from the Philippine banking system. See "Philippine Foreign Exchange and Foreign Ownership Controls".

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, to require licensing of foreign exchange transactions or to require delivery of foreign exchange to BSP or its designee. The Bank is not aware of any pending proposals by the Government relating to such restrictions. The Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange. Any restrictions imposed in the future pursuant to such statutory authority could adversely affect the ability of the Bank to source foreign currency to comply with its foreign currency-denominated obligations and adversely affect the ability of investors to repatriate foreign currency upon sale of the Common Shares or dividends or distributions relating to them.

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 December 31, 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 amortized 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 to 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 July 2014, provides for the new standard on financial instruments to take effect on January 1, 2018.

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 Bank's financial assets and liabilities, hedge accounting and impairment methodology of the Bank. Full provisions of PFRS 9 would include the implementation of a credit loss model for impairment requirements on an expected loss basis that replaces the currently adopted model on an incurred loss basis as per IAS 39. 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 December 31, 2014.

Financial statements of Philippine banks are prepared in accordance with financial reporting standards in the Philippines 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 January 1, 2018.

The Bank believes that other amendments and improvement to PFRS issued effective after December 31, 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 and domiciled 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, shareholders 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 shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting shareholders 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 shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders.

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 recognized 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 May 9, 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 July 12, 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 THE PROJECTIONS

Investors should not rely on the Bank's projected financial statements.

In accordance with PSE requirements for companies conducting rights issues, the Bank has prepared projected financial statements which are posted on the Bank's website (the "Projections"). The Bank does not, as a matter of course, make public projections as to future financial or operational results due to the inherent unreliability of such projections. The Bank has prepared the Projections solely for the purpose of complying with requirements of the PSE. None of the Bank's auditors, independent experts or any other outside party (including each of the Joint Global Coordinators and the Joint Bookrunners) has examined, and none of them will examine, the Projections, and accordingly they have not provided any form of opinion or assurance with respect thereto. There can be no assurance that the Projections and the assumptions used in preparing them are reasonable or that they can or will be achieved. All information and assumptions used in the preparation of the Projections are as of September 30, 2016 and reflect the deployment of proceeds from the Offer, run-rate performance for the third quarter of 2016 and the impact from the recent consolidation of BDO Life Assurance Holdings Corp. and other strategic initiatives. There can be no assurance that since the date of the Projections, there has not been, and will not be, any change, development, event or circumstance that has arisen which may cause the actual financial and operational results of the Bank to differ significantly from the Projections. The forecasts contained in the Projections are subject to significant business, macroeconomic and competitive uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the Bank's control. Depending upon operating, macroeconomic and other business conditions, the Bank may adapt or vary its operating, financing and other business decisions in ways which could cause the Bank's actual financial results to materially vary from those set out in the Projections. The Bank's business involves a significant number of risks, uncertainties, contingencies and other factors that could cause its future performance, financial position and results of operations to vary significantly from the Projections and therefore the Bank cannot provide any assurance that the Projections will accurately reflect its future results, including results for the fiscal years ending December 31, 2016 and 2017. The Bank has no obligation to update the Projections even in the event of material changes to the Bank's operational and financial outlook or to the assumptions used in the Projections. None of the Bank, the Joint Global Coordinators, the Joint Bookrunners or any of their advisers accepts any responsibility for the information contained in the Projections. As a result, investors should not rely on the Projections when making a decision to invest in the Rights Shares.

RISKS RELATING TO THE RIGHTS SHARES

The Bank's shares are subject to Philippine foreign ownership limitations.

The Philippine Constitution and related statutes restrict land ownership to Philippine Nationals. The term "Philippine National" as defined under Republic Act No. 7042, as amended, means a citizen of the Philippines, a domestic partnership or association wholly owned by citizens of the Philippines or a corporation organized under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation

Code of which 100.0% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60.0% of the fund will accrue to the benefit of Philippine Nationals. As of the date of this Prospectus, the Bank owns private land in the Philippines.

Under the General Banking Law, as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40.0% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40.0% of the voting stock. The percentage of foreign-owned voting stock in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

Since the aggregate foreign ownership in the Bank is limited to a maximum of 40.0% of its issued and outstanding capital stock, the Bank cannot allow the issuance or the transfer of its Common Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law. This restriction may adversely affect the liquidity and market price of the Common Shares to the extent international investors are not permitted to purchase Common Shares in normal secondary transactions.

The relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Rights Shares at a suitable price or at a time they desire.

The Philippine securities markets are substantially smaller, less liquid, and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Offer Price could differ significantly from the price at which the Common Shares will trade subsequent to completion of the Offer. There can be no assurance that even after the Rights Shares have been approved for listing on the PSE, any active trading market for the Common Shares will develop or be sustained after the Offer, or that the Offer Price will correspond to the price at which the Common Shares will trade in the Philippine public market subsequent to the Offer.

There is no assurance that investors may sell the Rights Shares at prices or at times deemed appropriate.

Factors that could affect the price of the Bank's Common Shares include the following:

- Fluctuations in the Bank's results of operations and cash flows or those of other companies in the Philippine banking industry;
- The public's reaction to the Bank's press releases, announcements and filings with the Philippine SEC and PSE;
- Additions or departures of key personnel;
- Changes in financial estimates or recommendations by research analysts;
- Changes in the amount of indebtedness the Bank has outstanding;
- Changes in general conditions in the Philippines and international economy, financial markets or the industries in which the Bank operates, including changes in regulatory requirements and changes in political conditions in the Philippines;

- Significant contracts, acquisitions, dispositions, financings, joint marketing relationships, joint ventures or capital commitments by the Bank or its competitors;
- Asset impairments or other charges;
- Developments related to significant claims or proceedings against the Bank;
- The Bank's dividend policy;
- Future sales of the Bank's equity or equity-linked securities; and
- Changes in the share price of the Bank's listed subsidiary, BDO Leasing & Finance, Inc.

In recent years, stock markets, including the PSE, have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market prices of the Bank's Common Shares.

Future issuances and/or sales of Common Shares, including by the Bank or any of the Bank's substantial shareholders, could adversely affect the prevailing market price of the Common Shares and shareholders.

The market price of the Common Shares could decline as a result of future sales of material amounts of the Common Shares or the issuance of new Common Shares by the Bank, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Common Shares or the Bank's ability to raise capital in the future at a time and at a price it deems appropriate.

At the conclusion of the Offer, there will be no restriction on the ability of the Bank's substantial shareholders including SM Investments Corporation, Multi-Realty Development Corporation, SM Prime Holdings Inc. and Sybase Equity Investments Corporation, to dispose of, encumber or pledge, their Common Shares. There can be no assurance that such arrangements will not involve these shareholders disposing of, encumbering Common Shares or pledging their Common Shares in amounts which would have a material impact on the market price of the Common Shares.

In addition, while the Bank has agreed with the International Bookrunners that, for a period of 90 days after the Listing Date, except for issuances of Common Shares in connection with (i) the Bank's outstanding preferred shares convertible into Common Shares or (ii) the Bank's employee stock option plan, neither the Bank nor any person acting on its behalf will issue, offer, sell, contract to sell, pledge or otherwise dispose of any Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or warrants or other rights to purchase Common Shares in each case without the prior written consent of the International Bookrunners, there is no restriction on the Bank's ability to issue additional Common Shares after the expiration of such 90 day period, and any issuance, disposal or other encumbrance over Common Shares by the Bank subsequent to the expiration of this period may also have a material impact on the market price of the Common Shares and result in dilution to other shareholders.

Investors may not be able to sell their securities at or above the price they paid for them.

Fluctuations in the exchange rate between the Peso and the U.S. Dollar may have an adverse effect on the U.S. Dollar value of the Common Shares.

The Common Shares are listed on the PSE, where securities are quoted and traded in Pesos. If there are any cash dividends on such Common Shares, these dividends will be paid in Pesos. Fluctuations in the exchange rate between the Peso and the U.S. Dollar may affect, among other things, the U.S. Dollar value of the proceeds that a holder receives upon a sale of such shares or in respect of any cash dividends paid on such shares.

Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Common Shares.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Rights Shares.

The Bank's management has broad discretion to determine how to use the proceeds received from this Offer, and may use them in ways that may not enhance the Bank's operating results or the price of the Bank's Common Shares.

The Bank plans to use the net proceeds of this offering as described under "Use of Proceeds". The Bank's management will have broad discretion over the use and investment of the net proceeds of this offering, and accordingly investors in this offering will need to rely upon the judgment of the Bank's management with respect to the use of proceeds with only limited information concerning management's specific intentions.

Use of Proceeds

The Bank expects to raise gross proceeds from the Offer of ₱59,998.7 million assuming an Offer Price of ₱83.75 per Rights Share. After deducting estimated applicable taxes, commissions and expenses related to the Offer of ₱246.2 million, net proceeds to the Bank from the Offer are expected to be approximately ₱59.8 billion.

BREAKDOWN OF PROCEEDS TO THE BANK:

	Amount (in ₱ millions)
Gross Proceeds	59,998.7
Estimated Offer Expenses	246.2
Estimated Net Proceeds	59,752.5

BREAKDOWN OF OFFER EXPENSES TO THE BANK:

	Amount (in ₱ millions)
SEC Exemption, Listing and Research Fees	60.6
PSE Listing and Processing Fees	67.2
Estimated Legal and Other Professional Fees	68.3
Estimated Other Expenses (taxes, printing, publication, shipping, out-of-pocket, etc.)	50.1
Estimated Offer Expenses	246.2

In the event that the actual expenses relating to the Offer are different from the above estimates, the actual net proceeds to the Bank from the Offer may be higher or lower than the expected net proceeds set forth above. Any increase or decrease in the net proceeds to the Bank shall be addressed by making a corresponding increase or decrease, as the case may be, to the Bank's provision for working capital requirements.

USE OF NET PROCEEDS

The additional capital will support the Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects, and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of the Domestically Systematically Important Bank (DSIB) surcharge. The additional capital will also allow the Bank to sustain its momentum and take advantage of the country's growth opportunities. Going forward, the Bank hopes to further expand its presence in emerging growth areas particularly the consumer, provincial middle market and SMEs and the underserved segments, as well as in infrastructure-related lending/project finance in line with the government's thrust to promote countryside development and ramp up infrastructure spending.

The Bank expects that upon receipt of the net proceeds from the Offer, the funds will be temporarily placed in investments allowed under BSP regulations including BSP overnight placements and term deposit facilities. The net proceeds from the Offer are expected to be intiially placed in investments allowed under BSP regulations, and will be taken out of such investments when needed for eventual loan use and are expected to be fully utilized to finance loan growth within the next few years, as well as for other general corporate purposes.

A table summarizing these expected uses of the net proceeds from the Offer is set forth below:

	Amount (in ₱ millions)	Allocation in Percentage	Estimated timing (reckoned from the date of receipt of the Net Proceeds)
Estimated Net Proceeds	₱59,752.5	—	—
Breakdown of Net Use of Proceeds			
Initial Use			
Investments Allowed under BSP Regulations	₱59,752.5		by February 2017
Eventual Use			
Loans	₱59,752.5		within March 2017 to December 2017

The foregoing discussion represents a best estimate of the use of the net proceeds of the Offer based on the Bank's current plans and anticipated expenditures. Actual use of the net proceeds may vary from the foregoing discussion and management may find it necessary or advisable to use portions of the net proceeds of the Offer for other purposes. In the event that there is any change in the Bank's use of proceeds, the Bank may temporarily reallocate the proceeds for other interim purposes, taking into consideration the prevailing business climate and the interests of the Bank and the shareholders taken as a whole. In the event of any deviation, adjustment or reallocation in the planned use of proceeds, the Bank will secure the approval of its Board of Directors for such deviation, adjustment or reallocation and promptly make the appropriate disclosures to the Philippine SEC and the PSE. The Bank shall regularly disclose to the PSE, through EDGE, any disbursements from the proceeds generated from the Offer. In addition, the Bank shall likewise submit through EDGE the following disclosure to ensure transparency in the use of proceeds:

(i) any disbursements made in connection with the planned use of proceeds from the Offer;

(ii) a quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter. The quarterly progress report will be certified by the Bank's Chief Financial Officer or Treasurer and external auditor;

(iii) an annual summary of the application of proceeds on or before January 31 of the year following the Offer. The annual summary report will be certified by the Bank's Chief Financial Officer or Treasurer and external auditor; and

(iv) the approval by the Bank's Board of Directors of any reallocation on the planned use of proceeds, or of any change in the work program. The actual disbursement or implementation of such reallocation will be disclosed by the Bank at least 30 days prior to the said actual disbursement or implementation.

The quarterly and annual reports of the Bank as required in items (ii) and (iii) above will include a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the work program or in this Prospectus, if any. Such detailed explanation will state the approval of the Board as required in item (iv) above.

None of the net proceeds will be used to repay any of the Bank's debts or liabilities to the Joint Bookrunners.

Plan of Distribution

THE RIGHTS OFFER

The Rights Shares shall be offered on a pro-rata basis to existing holders of Common Shares of the Bank as of the Record Date of January 10, 2017, 12:00 p.m. (Manila time). Under the PSE's Revised Listing Rules, the Bank, subject to the approval of the PSE, shall set the Record Date which shall not be less than 15 trading days from approval of the PSE board of directors. The Offer shall be in the proportion of one Rights Share for every 5.095 Common Shares held as of the Record Date at an Offer Price of ₱83.75 per Rights Share. Each of SM Investments Corporation, Multi-Realty Development Corporation, SM Prime Holdings, Inc., Sybase Equity Investments Corporation and Sysmart Corporation, who collectively beneficially own 54.52% of the Bank's shareholdings as of September 30, 2016, has respectively agreed to subscribe for at least its minimum allotment of Rights Shares. The unexercised Rights Shares shall be offered to those shareholders who had previously exercised their rights and had signified their intention to subscribe to any unsubscribed Rights Shares via payment of the total Offer Price of the Rights Shares they wish to subscribe in excess of their entitlements. SM Investments Corporation will subscribe or procure that a single related shareholder (an "SM Group Shareholder") or any number of SM Group Shareholders (in which case, such SM Group Shareholders may subscribe to such remaining Rights Shares in such proportion as they may determine in their sole discretion) will subscribe for any remaining Rights Shares unsubscribed after the mandatory second round of the Offer as part of the stock rights offering, to ensure that the Rights Shares covered by the Offer are fully subscribed. In the event any SM Group Shareholder is unable to subscribe and fully pay for any such remaining unsubscribed Rights Shares after the mandatory second round of the Offer, SM Investments Corporation shall procure that such remaining Rights Shares are subscribed and paid in full. The allocation of Additional Rights Shares to shareholders will be subject to the ultimate discretion of the Bank, provided that no applicant for Additional Rights Shares shall be allocated more Additional Rights Shares than the number for which such applicant has applied. Moreover, the maximum number of Additional Rights Shares to which an applicant is entitled to subscribe shall be in the proportion to the number of Common Shares held by such applicant as of the Record Date to the total number of Common Shares held by all applicants to Additional Rights Shares as of the Record Date.

Existing shareholdings in certificated and scripless form will be treated as separate shareholdings for the purpose of calculating entitlements under the Offer. Fractions of Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares.

BDO Capital, Credit Suisse and UBS (the "Joint Global Coordinators"), together with Citigroup, Goldman Sachs and HSBC (collectively with the Joint Global Coordinators, the "Joint Bookrunners") have agreed to use reasonable efforts to assist the Bank in soliciting interest from existing shareholders of the Bank (excluding (i) existing shareholders in the United States, and (ii) for Credit Suisse, UBS, Citigroup, Goldman Sachs and HSBC (collectively, the "International Bookrunners"), existing shareholders in the Philippines) in the purchase of the Rights Shares. The International Bookrunners are not acting as underwriters in connection with the Offer, and have not agreed to and shall not place, take up, procure purchasers for, or purchase, any Rights Shares that remain unsubscribed in the Offer after the mandatory second round. To the extent that any Rights Shares remain unsubscribed in the Offer and are not taken up by the SM Group Shareholders after the mandatory second round, such Rights Shares, subject to certain conditions, will be taken up by the Issue Manager and Domestic Underwriter who shall procure purchasers, or failing which, shall purchase the unsubscribed shares as set out below.

Each of the Joint Global Coordinators and the Joint Bookrunners may provide certain banking services to the Bank on usual commercial terms. The Joint Global Coordinators and Joint Bookrunners do not otherwise have any material relationship with the Bank beyond their role in the Offer. Each of the Joint

Global Coordinators and the Joint Bookrunners may provide additional banking services to the Bank or other members of the SM Group or SM Group Shareholders from time to time. Specifically, in connection with the Offer, the Joint Global Coordinators and the Joint Bookrunners may provide bridge financing arrangements to the SM Group Shareholders in connection with their agreement to subscribe for at least their minimum allotment of Rights Shares and to subscribe for any remaining Rights Shares left unsubscribed after the mandatory second round of the Offer, as well as possible take-out financing, for which the Joint Global Coordinators and the Joint Bookrunners would be paid customary fees. All services provided by the Joint Global Coordinators and the Joint Bookrunners in connection with the Offer have been provided as an independent contractor and not as a fiduciary to the Bank. Each of the Joint Global Coordinators and the Joint Bookrunners is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance and direct equity investment.

THE DOMESTIC OFFER

The Rights Shares that remain unsubscribed in the Offer ("Domestic Offer Shares"), that are not taken up by the SM Group Shareholders after the second round, will be offered by the Issuer Manager and Domestic Underwriter to qualified buyers (as defined in the SRC) in the Philippines (the "Domestic Offer").

The Bank and the Issue Manager and Domestic Underwriter have entered into a domestic underwriting agreement (the "Domestic Underwriting Agreement"), which is subject to certain conditions and may be subject to termination by the Issue Manager and Domestic Underwriter if certain circumstances, including *force majeure*, occur on or before the Rights Shares are listed on the PSE. The Domestic Underwriting Agreement is conditional, *inter alia*, on the Rights Shares being listed on or before January 31, 2017, or such later date as the Issue Manager and Domestic Underwriter may agree. The termination of the Domestic Underwriting Agreement at any stage of the Offer shall render the PSE's approval as null and void and may lead to the PSE's declaration of failure of the Offer. The Bank has agreed to indemnify the Issue Manager and Domestic Underwriter against certain liabilities, as provided in the Domestic Underwriting Agreement.

All of the Domestic Offer Shares shall be lodged with the PDTC and shall be issued in scripless form. Investors may maintain the Domestic Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Domestic Offer Shares from the PDTC's electronic system after the Domestic Offer Shares are listed on the PSE.

BDO Capital is a wholly-owned subsidiary of the Bank. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance and direct equity investment. BDO Capital was incorporated in December 1998 and began commercial operations in March 1999.

BDO Capital provides certain services to the Bank on usual commercial terms. All services provided by BDO Capital in connection with the Domestic Offer have been provided as an independent contractor and not as a fiduciary to the Bank.

LOCK-UP

The Bank has agreed with the International Bookrunners that, other than (i) in connection with the issuance of Rights Shares for purposes of the Rights Offer, (ii) for issuances of Common Shares in connection with the Bank's outstanding preferred shares convertible into Common Shares or (iii) for issuances of Common Shares pursuant to the Bank's employee stock option plan, neither the Bank nor any person acting on its behalf will, for a period of 90 days after the Listing Date, without the prior written consent of the International Bookrunners, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options.

Dividends and Dividend Policy

Dividends are declared and paid out of the earned surplus or net profits of the Bank as often and at such intervals as the Board of Directors may determine and in accordance with the provisions of law and the regulations of the BSP and the Philippine SEC.

Dividends to be paid in cash by the Bank are subject to approval by a majority of the Board of Directors and no further approval from the Bank's shareholders is required. Dividends to be paid in the form of stock requires both the approval of a majority of the Board of Directors and the approval of shareholders representing not less than two-thirds of the Bank's outstanding capital stock. Save as disclosed in this Prospectus, there are no known restrictions to the Bank's ability to pay dividends on the Common Shares.

Dividend declaration is an integral component of the Bank's capital management policy and process rather than a stand-alone process. Its fundamental and overriding policy is sustainability. Dividend policy and pay-outs are reviewed semi-annually. These are referenced against the Bank's capital management adequacy process.

Pursuant to existing Philippine SEC rules, cash dividends declared by the Bank must have a record date that is neither less than ten nor more than 30 days from the date the cash dividends are declared, provided, however, that the set record date is not to be less than ten trading days from receipt by the PSE of the notice of declaration of cash dividend. In case no record date is specified, the same is deemed to be fixed at 15 days from such declaration. However, companies that are obliged to pay dividends may have a single declaration for several cash dividends within a year, subject to the condition that their record and payment dates are also explicitly provided.

With respect to stock dividends, the record date is to be neither less than ten nor more than 30 days from the date of shareholders' approval, provided, however, that the set record date is not to be less than ten trading days from receipt by the PSE of the notice of declaration of stock dividend.

In relation to banks, however, the record date can only be fixed after receipt of the BSP's approval for the dividend declaration. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC.

Subject as described herein, the Bank has historically paid and intends to continue to pay (subject as described below) dividends on its Common Shares. There can be no assurance, however, that the Bank will be able to pay any dividends or maintain any level of dividends.

The payment of dividends in the future will depend on the Bank's earnings, cash flow, financial position and other factors. Dividends may be declared only from unrestricted retained earnings and subject to approval from the BSP. Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures. The Board of Directors may, at any time, modify the Bank's dividend payout ratio depending on the results of operations and future projects and plans of the Bank.

The table below sets out the earnings per share and dividends on Common Shares declared by the Bank for the periods indicated:

For the years ended December 31, (unless otherwise indicated)	Basic earnings per share (in ₱)	Cash dividends per share[1] (in ₱)
2013	6.22	2.10
2014	6.27	2.10
2015	6.84	2.10
For the period ended September 30, 2016	5.20	0.90

Note:

(1) Cash dividends are computed based on the outstanding Common Shares as of a designated record date.

On December 3, 2016, the Board of Directors of the Bank approved the declaration of regular cash dividends on the Bank's common shares in the amount of ₱0.30 per share or in the aggregate, approximately ₱1.1 billion, payable on December 29, 2016 to all stockholders of record as of December 19, 2016.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP. See "Taxation—Philippine Taxation—Dividends on the Shares".

Determination of Offer Price

The Rights Shares are being offered at a price of ₱83.75per share. The Offer Price was determined based on the 15-day VWAP of the Common Shares listed on the PSE prior to the Pricing Date, subject to a discount of 23.4%.

Dilution

After the completion of the Offer the Eligible Shareholders that exercise their rights to purchase their proportionate Rights Shares, will not suffer any dilution in their respective shareholdings in the Bank.

The net book value as of September 30, 2016 was ₽57.44 per share. Net book value represents the amount of the Bank's total resources less total liabilities, hybrid capital securities and non-controlling interest.

Upon receipt of the estimated ₽59.8 billion net proceeds of the Offer and the issuance of a total of 716,402,886 new Common Shares pursuant to the Offer, the Bank's pro-forma net book value would be approximately ₽61.71 per share. This represents an immediate increase of ₽4.27 per share for existing holders of Common Shares.

The calculation of the net book value per share before and after the Offer is presented below.

Net book value in ₽ as of September 30, 2016 (in millions) (a)	₽209,574
Issued and outstanding Common Shares as of September 30, 2016 (in millions) (b)	3,648
Net book value per share as of September 30, 2016 (c)[1]	₽57.44
Pro-Forma net book value in ₽ after the Offer (in millions) (d)[2][3]	₽269,410
Issued and outstanding Common Shares after the Offer (in millions) (e)[3]	4,366
Pro-Forma net book value per share the Offer (f)[4]	₽61.71
Increase per share to Existing Shareholders attributable to the Offer[5]	₽4.27

Notes:

(1) Computed by dividing (a) by (b).

(2) Based on the Bank's net book value as computed in (c) and adding the net proceeds from the Offer. See "Dividends and Dividend Policy".

(3) Includes shares issued under the Bank's employee stock option/grant program since September 30, 2016, amounting to 1,584,830 Common Shares. The total issued and outstanding Common Shares of the Bank as of January 3, 2017 is 3,650,072,708.

(4) Computed by dividing (d) by (e).

(5) Computed by subtracting (c) from (f).

Capitalization and Indebtedness

The following table sets out the unaudited consolidated short-term liabilities, long-term liabilities and capitalization of the Bank as of September 30, 2016, and as adjusted to give effect to the issuance of the Rights Shares, after payment of underwriting discounts and selling concessions and estimated offering expenses. This table should be read in conjunction with the Bank's unaudited interim condensed financial statements as of and for the nine months ended September 30, 2016 included in this Prospectus.

CAPITALIZATION AND INDEBTEDNESS

	As of September 30, 2016			
	Actual		As adjusted	
	(in ₱ millions)	(in US$ millions)[1]	(in ₱ millions)	(in US$ millions)[1]
Short-term liabilities				
Deposit liabilities	1,672,695	34,662.2	1,672,695	34,662.2
Bills payable and subordinated notes payable	39,585	820.3	39,585	820.3
Other liabilities	19,062	395.0	19,062	395.0
Total short-term liabilities	1,731,342	35,877.5	1,731,342	35,877.5
Long-term liabilities net of current portion				
Deposit liabilities	143,755	2,978.9	143,755	2,978.9
Bills payable and subordinated notes payable	48,595	1,007.0	48,595	1,007.0
Other long-term liabilities	68,736	1,424.4	68,736	1,424.4
Total long-term liabilities net of current portion	261,086	5,410.3	261,086	5,410.3
Capital funds				
Issued share capital				
Preferred stock	5,150	106.7	5,150	106.7
Common stock	36,484	756.0	43,660	904.7
Capital paid in excess of par value	70,066	1,451.9	122,902	2,546.8
Surplus reserves	2,776	57.5	2,776	57.5
Other reserves	12	0.2	12	0.2
Surplus free	103,724	2,149.4	103,724	2,149.4
Net unrealized loss on AFS securities	(958)	(19.9)	(958)	(19.9)
Accumulated actuarial losses	(3,611)	(74.8)	(3,611)	(74.8)
Revaluation increment	1,008	20.9	1,008	20.9
Accumulated translation adjustment	73	1.5	73	1.5
Non-controlling interest	711	14.7	711	14.7
Total capital funds	215,435	4,464.3	275,447	5,707.9
Total capitalization and indebtedness[2][3][4]	2,207,863	45,752.2	2,267,875	46,995.8
Capital Ratios[5]				
CET1 ratio	11.1%	11.1%	14.7	14.7
Tier 1 capital adequacy ratio	11.4%	11.4%	15.0	15.0
Total capital adequacy ratio	12.9%	12.9%	16.5	16.5

Notes:

(1) Translations from Pesos to US dollars for convenience of the reader have been made at the BSP Rate on September 30, 2016 of ₱48.257 = US$1.00.

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

(3) As of September 30, 2016, the Bank had no contingent liabilities save for those set out in Note 27.3 to the unaudited interim condensed financial statements of the Bank as of September 30, 2016, included elsewhere in this Prospectus.

(4) Please note this does not reflect any post-September 30, 2016 dividend payouts. On December 3, 2016, the Board of Directors of the Bank approved the declaration of regular cash dividends on the Bank's common shares in the amount of ₱0.30 per share or in the aggregate, approximately ₱1.1 billion, payable on December 29, 2016 to all stockholders of record as of December 19, 2016. The "as adjusted" capital funds, however, include the 1,584,830 Common Shares issued under the Bank's employee stock option/grant program since September 30, 2016. As of January 3, 2017, the total issued and outstanding Common Shares of the Bank is 3,650,072,708.

(5) Calculated based on Basel III rules.

Except as described above, there has been no material change in the indebtedness or capitalization or contingent liabilities of the Bank since September 30, 2016.

Selected Statistical Data

The following unaudited information should be read together with the Bank's consolidated financial statements included in this Prospectus as well as "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Risk Management". All amounts presented in this section except for Average Daily Balance and Average Yield/Cost have been prepared in accordance with PFRS.

AVERAGE STATEMENTS OF FINANCIAL POSITION AND RELATED INTEREST

The following table shows the Bank's average balances, interest earned/incurred and average interest rates for the three years ended December 31, 2013, 2014 and 2015 and for the nine months ended September 30, 2016. Average balances are generally based on a daily rate.

	For the years ended December 31,									For the nine months ended September 30,		
	2013			2014			2015			2016		
	Average daily balance	Interest income/ expense	Average yield/ cost (%)	Average daily balance	Interest income/ expense	Average yield/ cost (%)	Average daily balance	Interest income/ expense	Average yield/ cost (%)	Average daily balance	Interest income/ expense	Average yield/ cost (%)
	(in ₱ millions, except for percentages)											
Due from BSP and other banks	251,653	1,576	0.62	355,944	2,065	0.57	326,190	795	0.24	377,265	564	0.20
Trading and investment securities	214,094	9,346	4.31	188,984	7,611	3.97	224,309	7,496	3.30	247,187	6,117	3.25
Loans, other receivables and others	796,552	45,685	5.66	1,009,837	53,907	5.26	1,211,322	63,836	5.20	1,356,318	54,015	5.23
Total	1,262,299	56,607	4.42	1,554,765	63,583	4.03	1,761,820	72,127	4.04	1,980,770	60,695	4.03
Deposit liabilities	1,055,601	10,421	0.97	1,354,292	10,441	0.76	1,529,383	12,526	0.81	1,726,739	10,124	0.77
Subordinated debt, bills payable, and other borrowings	97,699	3,019	3.05	92,911	1,917	2.13	116,874	2,640	2.23	127,746	2,122	2.18
Total	1,153,230	13,441	1.15	1,447,203	12,358	0.85	1,646,257	15,166	0.91	1,854,485	12,246	0.87

ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE — VOLUME AND RATE ANALYSIS

The following table provides an analysis of changes in interest income, interest expense, and net interest income between changes in volume (average daily balances) and changes in rates for the year ended December 31, 2013 compared with the year ended December 31, 2014, the year ended December 31, 2014 compared with the year ended December 31, 2015 and the nine months ended September 30, 2015 compared with the nine months ended September 30, 2016. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the year ended December 31, 2014 compared with the year ended December 31, 2013		
		Increase (Decrease) Due to	
	Net change	Change in average volume	Change in average rate
	(in ₱ millions)		
Interest income on:			
Trading and investment securities	(1,735)	(870)	(865)
Loans, other receivables and others	8,222	9,644	(1,422)
Due from BSP and other banks	489	494	(5)
Interest expense on:			
Deposit liabilities	20	2,196	(2,176)
Subordinated debt, bills payable and other borrowings	(1,102)	(861)	(241)
Net interest income	8,058	7,933	125

	For the year ended December 31, 2015 compared with the year ended December 31, 2014		
		Increase (Decrease) Due to	
	Net change	Change in average volume	Change in average rate
	(in ₱ millions)		
Interest income on:			
Trading and investment securities	(115)	1,164	(1,279)
Loans, other receivables and others	9,929	10,140	(211)
Due from BSP and other banks	(1,269)	(1,607)	338
Interest expense on:			
Deposit liabilities	2,086	1,059	1,027
Subordinated debt, bills payable and other borrowings	723	713	10
Net interest income	5,737	7,925	(2,188)

	For the nine months ended September 30, 2016 compared with the three month ended September 30, 2015		
		Increase (Decrease) Due to	
	Net change	Change in average volume	Change in average rate
	(in ₱ millions)		
Interest income on:			
Trading and investment securities	465	637	(172)
Loans, other receivables and others	7,457	7,762	(305)
Due from BSP and other banks	(113)	(69)	(44)
Interest expense on:			
Deposit liabilities	1,029	765	264
Subordinated debt, bills payable and other borrowings	115	(85)	200
Net interest income	6,665	7,650	(985)

Management's Discussion and Analysis of Financial Position and Results of Operations

The following discussion and analysis of the Group's financial position and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Prospectus and the sections entitled "Summary of Consolidated Financial Information", "Selected Statistical Information", "Risk Management" and "Business". The selected financial information presented below as of and for the years ended December 31, 2013, 2014, and 2015 were derived from the consolidated financial statements prepared in accordance with financial reporting standards for banks in the Philippines which include PFRS, as discussed in Note 2 to the Bank's financial statements, and audited by P&A in accordance with PSA. The selected financial information as of September 30, 2016 and for the nine months ended September 30, 2015 and 2016 were derived from the unaudited interim consolidated financial statements of the Group, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed by P&A in accordance with PSRE 2410.

This Prospectus contains forward-looking statements largely based on the Group's current expectations and projections about future events and financial trends affecting its business. The Group's actual results may differ materially from those discussed in any forward looking statements.

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 September 30, 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 resources and total trust funds under management. The Bank's consolidated total resources were ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as of December 31, 2013, 2014 and 2015, respectively, and ₱2.2 trillion as of September 30, 2016 while total capital funds stood at ₱164.4 billion, ₱179.7 billion, ₱199.6 billion and ₱215.4 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 September 30, 2016, the Bank had a network of 1,084 operating domestic branches (including 115 ONB branches) and one foreign branch (in Hong Kong) with 105 more domestic branch licenses for deployment. Its network includes 26 overseas remittance and representative offices (including one full service branch in Hong Kong) as of October 31, 2016, and 3,524 automated teller machines ("ATMs") (including 206 ONB ATMs) and 265 cash accept machines ("CAMs") as of September 30, 2016. As of September 30, 2016, the SM Group was the Bank's largest shareholder group, with an effective common equity interest of approximately 54.57% of the Bank's issued common shares.

As of September 30, 2016 the Bank had a market capitalization on the PSE of approximately ₱400.6 billion. The Bank's consolidated Tier 1 capital adequacy ratio, tangible equity-to-assets ratio and total capital adequacy ratio were 11.4%, 9.8% and 12.9%, respectively, as of September 30, 2016.

FACTORS AFFECTING RESULTS OF OPERATIONS

The Bank's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Bank's results in the past and which it expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Beginning in 2004, the Government reduced its borrowings and its budget deficit, achieved in part through Government improvements in cash and revenue management as well as various privatization programs. The 91-day Treasury bill rates have decreased from an average rate of 7.3% in 2004 to an average rate of 1.8% in 2015. The interbank call loan rate, which is the rate on loans among Philippine banks for periods less than 24 hours, primarily for the purpose of covering reserve deficiencies, has decreased from an average rate of 4.8% in 2009 to an average rate of 2.5% in 2015. In the first nine months of 2016, the average interbank call loan rate was 2.53%. Commercial lending interest rates in the Philippines have generally followed the trends in Government borrowing rates, moving from an average range of 4.6% to 6.9% in 2013, 4.4% to 6.8% in 2014, 4.5% to 6.9% in 2015 and 4.2% to 6.9% in the first nine months of 2016, based on data from the BSP.

The following tables set out certain domestic interest rates for the periods indicated:

	Domestic Interest Rates			
	2013	**2014**	**2015**	**2016**
	(weighted averages in percentages per period)			
91-day Treasury bill rates	0.32%	1.24%	1.77%	1.53[3]%
Interbank call loan rate[1]	2.22%	2.22%	2.53%	2.53[3]%
Philippine commercial bank average lending rates[2]	5.76%	5.53%	5.58%	5.66[4]%
Overnight reverse repurchase rates	3.50%	3.77%	4.00%	3.56[3]%

Notes:

(1) Rate on loans among Philippine banks for periods less than 24 hours.

(2) Range of monthly rates reflect the annual per percentage equivalent of all commercial banks' actual monthly interest income on peso-denominated loans to the total outstanding level of the peso-denominated demand/time loans, bills discounted, mortgage contract receivables and restructured loans.

(3) As of September 2016.

(4) As of August 2016.

Source: BSP

Fluctuations in domestic market interest rates can have a significant impact on the Bank by affecting the Bank's interest income, cost of funding and general performance of its existing loan portfolio and other assets. For instance, when interest rates increase, the increase in potential yields on new loans can be a strong incentive to the Bank to increase the size of its loan portfolio. However, rising interest rates can also adversely affect the Bank's business. Increased interest rates can result in higher cost of funding for the Bank, particularly in the case of increased interest rates payable on deposits. Increased cost of borrowing on floating rate loans can also negatively affect the Bank's business by increasing default rates among the Bank's borrowers, which could in turn lead to increases in the

Bank's non-performing loan portfolio and ROPA. Decreasing interest rates have the opposite effects of those described above. Moreover, a divergence in key benchmark rates can adversely impact the Bank's business. For instance, if the 91-day treasury yield, on which most corporate floating-rate loans are priced, falls while the BSP policy rate, on which the Bank's term deposits are primarily benchmarked, rises, this will have a negative impact on the Bank's net interest margin as the yields of existing floating-rate loans will decline while the cost of funding paid on new term deposits will increase. The Bank actively manages its assets and liabilities to maximize income and minimize cost of funding, as well as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

Successful Implementation of Growth Strategy

The Bank's recurring income has significantly increased during the past few years, in line with the asset growth that it has experienced. In 2016, the Bank intends to further this growth strategy through the expansion of its branch network to increase the distribution channels of the Bank's products and services. The Bank's net interest income was at ₱43,166 million, ₱51,225 million and ₱56,961 million (US$1,180.3 million) in 2013, 2014 and 2015, respectively, which represented 57.5%, 63.5% and 64.1% of total operating income for these respective periods. In the nine months ended September 30, 2016, the Bank's net interest income was ₱48,449 million (US$1,004.0 million), representing 60.4% of total operating income for such period. The Bank aims to continue to expand and at the same time rebalance its loan portfolio, with the long-term goal of attaining equal contribution from each of its loans to the consumer, middle-market and large corporate segments. As of September 30, 2016, the Bank's total loan portfolio comprised approximately 20.4% of consumer loans, 29.6% to the middle-market segment and 47.1% to large corporates, and the extent to which the Bank can achieve its loan growth objectives while seeking to rebalance its portfolio may have a material effect on its results of operations. The Bank has also grown its other operating income, excluding trading and securities gain and foreign exchange gain, in recent years. The Bank's other operating income, excluding trading and securities gain and foreign exchange gain, was ₱19,080 million, ₱22,375 million and ₱24,766 million (US$513.2 million) in 2013, 2014 and 2015, respectively, which represented 25.4%, 27.7% and 27.9% of total operating income for these respective periods. In the nine months ended September 30, 2016, the Bank's other operating income, excluding trading and securities gain and foreign exchange gain, was ₱27,291 million (US$565.5 million), representing 34.0% of total operating income for such period. The Bank seeks to sustain this growth trajectory by focusing on booking good quality assets.

On the liability side, the Bank intends to manage its cost of funds (interest expense) by generating more low-cost deposits, while continuing to grow total deposits. In general, the Bank intends for deposit growth to be anchored on the Bank's branch expansion program. The Bank believes that its focus on growing its low cost deposit base will provide a stable and reliable funding source which it believes may enable it to improve its net interest margin as well as earning fees from these deposit accounts. In the year ended December 31, 2015, the Bank's average cost of deposits was 0.8%. The Bank's low-cost funds (which consist of demand deposits and savings deposits) accounted for 68.3% of deposit liabilities as of December 31, 2015 and 70.0% of deposit liabilities as of September 30, 2016. As of September 30, 2016 the balance of the Bank's consumer lending portfolio was ₱288,281 million (US$5,973.9 million). The extent to which the Bank is successful in implementing the foregoing strategies is a significant factor expected to affect the Bank's results of operations.

Regulatory Framework

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes guidelines on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. In May 2015, the BSP approved the guidelines for implementing of a more stringent capital adequacy structure required under Basel III. Further changes in these and other regulations applicable to the Bank may significantly affect its results of operations and financial condition. In addition, the Bank is subject to certain tax rules specific to financial institutions. See "The Philippine Banking Industry".

Competition in the Banking and Finance Industry

The Philippine banking industry is very competitive and the Bank competes against domestic and foreign banks that offer similar products and services as the Bank. Competition with other banks has and will continue to affect the cost of the Bank's funding and the Bank's ability to increase its market share of loans and deposits. The Bank also faces increasing competition in its target growth areas such as mid-market corporates, consumer loans, fixed-income distribution and cash management services. The liberalization of foreign participation in the Philippine banking industry has resulted in increased competition. Since liberalization, foreign banks have expanded from their traditional focus on Metro Manila and large-scale corporations to building their own networks to increase market share, primarily through acquisitions of small domestic savings banks. Foreign banks tend to benefit from the support of their parent companies or established regional operations but they are limited by local regulations to a maximum of six Philippine branches in order to protect the growth and participation of local banks. An increase in competition from foreign banks could adversely affect the Bank's results of operations and financial condition.

Effects of the Philippine and the Global Economic Environment

As a bank with substantially all of its operations in the Philippines, the Bank's financial position and results of operations have been and will continue to be significantly affected by economic and political conditions in the Philippines. After the onset of the Asian economic crisis in 1997, the Philippines experienced economic turmoil characterized by currency depreciation, interest rate volatility, a significant decline in share prices on the PSE and a reduction of foreign currency reserves. Beginning in 2007, the Philippines was adversely affected by the slowdown in the U.S. economy, as well as the subsequent crisis in worldwide financial markets, which affected the Bank's financial results for the year ended December 31, 2008.

Interest rates in the Philippines have declined in recent years, mirroring a worldwide monetary policy response to the financial crisis. Lower interest rates on the Bank's asset products would reduce its margins and thus its net income. However, interest rates increased in 2010 and 2011 as a result of fears over the European sovereign debt crisis and a decline in liquidity in the global financial system. In 2010 and 2011, after the sovereign debt of certain European governments was downgraded, concerns began to arise that a number of these euro-zone countries would not be able to re-finance their existing debt and could default on their obligations. Declines in sovereign debt ratings also forced banks to improve their reserves, as certain government instruments were no longer considered risk-free for the purposes of calculating reserve ratios. International interbank lending also decreased as counter-party risks increased. Financial markets across the world have generally been volatile in recent years, and further downgrades of European sovereign debt or uncertainty over whether governments can meet their debt obligations may drive interest rates higher, which could make working capital more expensive for the Bank to obtain and adversely impact its results of operations.

CRITICAL ACCOUNTING POLICIES

For information on the Bank's significant accounting policies and significant accounting judgments and estimates, see Notes 2 and 3 to the Bank's financial statements included elsewhere in this Prospectus.

DESCRIPTION OF STATEMENT OF COMPREHENSIVE INCOME

Revenues

Net Interest Income

Net interest income is equal to interest income after deducting interest expense.

Interest Income

Interest income consists of interest generated from loans and receivables, trading and investment securities, due from other banks and other interest.

Interest Expense

Interest expenses principally comprise interest paid or accrued on deposit liabilities, bills payable and other borrowings.

Impairment Losses

Impairment losses refer to the estimated amount of losses in the Bank's portfolio of loans, investment securities, investment properties and other assets.

Other Operating Income

Other operating income comprises the following:

Trading Gain (Loss)

This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Service Charges and Fees

The Bank earns service charges, fees and commissions from a diverse range of financial services it provides to its customers. These fees include commission income, credit-related fees, asset management fees, portfolio and other management fees, and advisory fees.

Miscellaneous Income

Miscellaneous operating income includes trust fees, foreign exchange gains — net, income from assets acquired, dividends and other miscellaneous income.

Other Operating Expenses

Other expenses comprise the following:

Employee Benefits

Employee benefits comprises salaries and wages, bonuses, retirement benefits under the Bank's benefit plan, social security costs and other benefits to employees.

Occupancy

Occupancy comprises the Bank's rent expense, as well as depreciation expense on certain of the Bank's properties.

Taxes and Licenses

Taxes and licenses comprise taxes and license fees payable by the Bank with respect to its operations.

Miscellaneous Expenses

Miscellaneous operating expenses for the Bank comprise advertising, security, clerical, messengerial and janitorial, insurance, fees and commissions, representation and entertainment, power, light and water, litigation/assets acquired, repairs and maintenance, travelling, information technology, supplies, amortization of intangibles and miscellaneous items.

Income Tax Expense

Income tax expense relates mainly to the corporate income tax payable by the Bank, which comprises a 2% minimum corporate income tax and a regular corporate income tax of 30%. The Bank is also subject to final income taxes of 7.5%, 10%, 15% and 20%.

RESULTS OF OPERATIONS

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net Interest Income

Interest Income

The Bank's interest income increased by 14.8% to ₱60,695 million (US$1,257.7 million) for the nine months ended September 30, 2016 from ₱52,887 million for the nine months ended September 30, 2015 primarily due to an increase in the volume of loans and receivables and investment securities.

Interest Expense

Interest expense increased by 10.3% to ₱12,246 million (US$253.8 million) for the nine months ended September 30, 2016 from ₱11,102 million for the nine months ended September 30, 2015 primarily due to growth in the Bank's deposits, in support of its continued balance sheet growth.

Net Interest Income

Consequently, net interest income increased by 15.9% to ₱48,449 million (US$1,004.0 million) for the nine months ended September 30, 2016 from ₱41,785 million for the nine months ended September 30, 2015 due to higher loan volumes and an improvement in the Bank's funding mix resulting from an expansion of low cost deposits.

Impairment Losses

The Bank set aside ₱2,568 million (US$53.2 million) in impairment losses for the nine months ended September 30, 2016, a 4.3% decrease from ₱2,682 million for the nine months ended September 30, 2015, primarily due to relatively stable asset quality.

Other Operating Income

The following table sets out the components of the Bank's other operating income for the periods indicated.

	For the nine months ended September 30,			For the nine months ended September 30,
	2015	2016	% change	2016
	(in ₱ millions, except percentages)			(in US$ millions)
Service charges, fees and commissions	11,759	13,639	16.0	282.6
Insurance premiums	—	6,041	—	125.2
Trading gain — net	4,378	2,452	(44.0)	50.8
Trust fees	2,155	2,314	7.4	48.0
Foreign exchange gain — net	1,952	2,022	3.6	41.9
Rental income	933	1,097	17.6	22.7
Income from assets acquired	600	599	(0.0)	12.4
Dividends	352	380	8.0	7.9
Recovery on charge-off assets	193	—	—	—
Miscellaneous	1,500	3,221	114.7	66.8
Total	23,822	31,765	33.3	658.2

The Bank's other operating income increased by 33.3% to ₱31,765 million (US$658.2 million) for the nine months ended September 30, 2016 from ₱23,822 million for the nine months ended September 30, 2015. This was primarily due to steady growth in recurring fee income as well as the accounting consolidation of BDO Life. Foreign exchange gains also increased to ₱2,022 million (US$41.9 million) for the nine months ended September 30, 2016 from ₱1,952 million for the nine months ended September 30, 2015. Partially offsetting these gains, trading gains decreased 44.0% to ₱2,452 million for the nine months ended September 30, 2016 from ₱4,378 million for the nine months ended September 30, 2015 as a result of less favorable market conditions in the first nine months of 2016.

Other Operating Expenses

The following table sets out the components of the Bank's other operating expenses for the periods indicated.

	For the nine months ended September 30,			For the nine months ended September 30,
	2015	2016	% change	2016
	(in ₱ millions, except percentages)			(in US$ millions)
Employee benefits	13,941	16,147	15.8	334.6
Occupancy	4,850	5,639	16.3	116.9
Taxes and licenses	4,660	5,323	14.2	110.3
Fees and commissions	2,744	4,496	63.8	93.2
Insurance benefits and claims	—	4,461	—	92.4
Insurance	2,434	2,821	15.9	58.5
Advertising	1,779	2,329	30.9	48.3
Security, clerical, messengerial and janitorial	1,939	2,163	11.6	44.8
Representation and entertainment	980	1,087	10.9	22.5
Repairs and maintenance	722	873	20.9	18.1
Travelling	748	843	12.7	17.5
Power, light and water	676	721	6.7	14.9
Supplies	345	453	31.3	9.4
Information technology	305	326	6.9	6.8
Amortization of intangibles	202	315	55.9	6.5
Litigation on assets acquired	97	276	184.5	5.7
Miscellaneous	4,474	4,554	1.1	94.4
Total	40,896	52,827	29.2	1,094.8

The Bank's other expenses increased by 29.2% to ₱52,827 million (US$1,094.7 million) for the nine months ended September 30, 2016 from ₱40,896 million for the nine months ended September 30, 2015 primarily due to salary increases, higher manpower count for business expansion, increased business volumes, expanded distribution network and the accounting consolidation of BDO Life. The Bank incurred expenses relating to insurance benefits and claims of ₱4,461 million (US$92.4 million) for the nine months ended September 30, 2016 as a result of the consolidation of BDO Life.

Income Tax Expense

Income tax expense increased by 13.8% to ₱5,009 million (US$103.8 million) for the nine months ended September 30, 2016 from ₱4,400 million for the nine months ended September 30, 2015, due to an increase in taxable operating income for the period.

Net Income

As a result of the foregoing, the Bank's net profit increased by 9.6% to ₱19,321 million (US$400.4 million) for the nine months ended September 30, 2016 from ₱17,629 million for the nine months ended September 30, 2015.

Year ended December 31, 2015 compared with year ended December 31, 2014

Net Interest Income

Interest Income

The Bank's interest income increased 13.4% to ₱72,127 million (US$1,494.6 million) for the year ended December 31, 2015 from ₱63,583 million for the year ended December 31, 2014 primarily due to an increase in the volume of loans and receivables, largely driven by increased lending to the large corporate and consumer segments, which were partially offset by lower amounts due from other banks.

Interest Expense

Interest expense increased 22.7% to ₱15,166 million (US$314.3 million) for the year ended December 31, 2015 from ₱12,358 million for the year ended December 31, 2014 primarily due to an increase in the Bank's deposit liabilities in support of its continued balance sheet growth.

Net Interest Income

Net interest income increased 11.2% to ₱56,961 million (US$1,180.4 million) for the year ended December 31, 2015 from ₱51,225 million for the year ended December 31, 2014 primarily due to higher loan volumes and an improvement in the Bank's funding mix resulting from an expansion of low cost deposits.

Impairment Losses

Impairment losses decreased 41.3% to ₱3,000 million (US$62.2 million) for the year ended December 31, 2015 from ₱5,114 million for the year ended December 31, 2014 primarily due to relatively stable asset quality.

Other Operating Income

The following table sets out the components of the Bank's other operating income for the periods indicated.

	For the year ended December 31,			For the year ended December 31,
	2014	2015	% change	2015
	(in ₱ millions, except percentages)			(in US$ millions)
Service charges, fees and commissions	15,386	16,453	6.9	340.9
Trading gain — net	5,868	4,740	(19.2)	98.2
Trust fees	2,624	2,909	10.9	60.3
Foreign exchange gains	1,244	2,433	95.6	50.4
Rental	992	1,262	27.2	26.2
Income from assets sold or exchanged	1,067	774	(27.5)	16.0
Dividend	490	459	(6.3)	9.5
Miscellaneous — net	1,816	2,909	60.2	60.3
Total	29,487	31,939	8.3	661.8

The Bank's other operating income increased 8.3% to ₱31,939 million (US$661.8 million) for the year ended December 31, 2015 from ₱29,487 million for the year ended December 31, 2014. This was primarily due to a 6.9% increase in the Bank's service charges and fees resulting from increases in the Bank's recurring income from its trust, credit cards, electronic banking and capital markets businesses. Foreign exchange gains also increased to ₱2,433 million (US$50.4 million) for the year ended December 31, 2015 from ₱1,244 million for the year ended December 31, 2014. Partially offsetting these gains, trading gains decreased 19.2% to ₱4,740 million in the year ended December 31, 2015 from ₱5,868 million the year ended December 31, 2014 as a result of less favorable market conditions in 2015.

Other Operating Expenses

The following table sets out the components of the Bank's other operating expenses for the periods indicated.

	For the year ended December 31,			For the year ended December 31,
	2014	2015	% change	2015
	(in ₱ millions, except percentages)			(in US$ millions)
Compensation and benefits	18,081	21,120	16.8	437.7
Taxes and licenses	5,780	6,683	15.6	138.5
Occupancy	5,704	6,675	17.0	138.3
Fees and commissions	3,147	3,712	18.0	76.9
Insurance	2,856	3,300	15.5	68.4
Security, clerical, messengerial and janitorial	2,526	2,628	4.0	54.5
Advertising	2,427	2,155	(11.2)	44.7
Representation and entertainment	1,146	1,442	25.8	29.9
Travelling	871	1,059	21.6	21.9
Repairs and maintenance	959	1,036	8.0	21.5
Power, light and water	920	903	(1.8)	18.7
Supplies	515	522	1.4	10.8
Information technology	383	427	11.5	8.8
Telecommunication	432	420	(2.8)	8.7
Amortization of computer software	206	285	38.3	5.9
Freight	241	259	7.5	5.4
Litigation on assets acquired	461	152	(67.0)	3.1
Miscellaneous	1,875	2,366	26.2	49.0
Total	48,530	55,144	13.6	1,142.7

The Bank's other operating expenses increased by 13.6% to ₱55,144 million (US$1,142.7 million) for the year ended December 31, 2015 from ₱48,530 million for the year ended December 31, 2014, primarily due to a 16.8% increase in compensation and benefits, a 15.6% increase in taxes and license expenses and a 17.0% increase in occupancy expenses, primarily as a result of the Bank's business growth and expansion.

Income Tax Expense

Income tax expense increased by 34.5% to ₱5,701 million (US$118.1 million) for the year ended December 31, 2015 as compared to ₱4,240 million the year ended December 31, 2014, primarily due to an increase in taxable operating income for the period.

Net Profit

As a result of the foregoing, the Bank's net profit increased 9.8% to ₱25,055 million (US$519.2 million) for the year ended December 31, 2015 from ₱22,828 million for the year ended December 31, 2014.

Year ended December 31, 2014 compared to year ended December 31, 2013

Net Interest Income

Interest Income

The Bank's interest income increased 12.3% to ₱63,583 million (US$1,317.6 million) for the year ended December 31, 2014 from ₱56,606 million for the year ended December 31, 2013 primarily due to an increase in the volume of loans and receivables across all customer segments.

Interest Expense

Interest expense decreased 8.1% to ₱12,358 million (US$256.1 million) for the year ended December 31, 2014 from ₱13,440 million for the year ended December 31, 2013 primarily due to the Bank's improved funding mix.

Net Interest Income

Net interest income increased 18.7% to ₱51,225 million (US$1,061.5 million) for the year ended December 31, 2014 from ₱43,166 million for the year ended December 31, 2013 primarily due to higher loan volumes and an improvement in the Bank's funding mix.

Impairment Losses

Impairment losses decreased 27.0% to ₱5,114 million (US$106.0 million) for the year ended December 31, 2014 from ₱7,001 million for the year ended December 31, 2013 primarily due to relatively stable asset quality.

Other Operating Income

The following table sets out the components of the Bank's other operating income for the periods indicated.

	For the year ended December 31,			For the year ended December 31,
	2013	2014	% change	2014
	(in ₱ millions, except percentages)			(in US$ millions)
Service charges, fees and commissions	12,991	15,386	18.4	318.8
Trading gain — net	8,422	5,868	(30.3)	121.6
Trust fees	2,473	2,624	6.1	54.4
Foreign exchange gains	4,342	1,244	(71.3)	25.8
Income from assets sold or exchanged	840	1,067	27.0	22.1
Dividend income	498	490	(1.6)	10.2
Miscellaneous — net	2,278	2,808	23.3	58.2
Total	31,844	29,487	(7.4)	611.0

The Bank's other operating income decreased 7.4% to ₱29,487 million (US$611.0 million) for the year ended December 31, 2014 from ₱31,844 million for the year ended December 31, 2013. This was primarily due to decreased foreign exchange and trading gains. Foreign exchange gains decreased to ₱1,244 million (US$25.8 million) for the year ended December 31, 2014 from ₱4,342 million for the year ended December 31, 2013. Trading gains decreased 30.3% to ₱5,868 million (US$121.6 million) for the year ended December 31, 2014 from ₱8,422 million for the year ended December 31, 2013 as a result of less favorable market conditions in 2014.

Other Operating Expenses

The following table sets out the components of the Bank's other operating expenses for the periods indicated.

	For the year ended December 31,			For the year ended December 31,
	2013	2014	% change	2014
	(in ₱ millions, except percentages)			(in US$ millions)
Compensation and benefits	16,480	18,081	9.7	374.7
Taxes and licenses	4,769	5,780	21.2	119.8
Occupancy	4,948	5,704	15.3	118.2
Fees and commissions	2,687	3,147	17.1	65.2
Insurance	2,019	2,856	41.5	59.2
Security, clerical, messengerial and janitorial	2,260	2,526	11.8	52.3
Advertising	2,499	2,427	(2.9)	50.3
Representation and entertainment	1,139	1,146	0.6	23.7
Repairs and maintenance	766	959	25.2	19.9
Power, light and water	863	920	6.6	19.1
Travelling	761	871	14.5	18.0
Supplies	485	515	6.2	10.7
Litigation on assets acquired	575	461	(19.8)	9.6
Telecommunication	427	432	1.2	9.0
Information technology	485	383	(21.0)	7.9
Freight expenses	210	241	14.8	5.0
Amortization of computer software	135	206	52.6	4.3
Miscellaneous	1,751	1,875	7.1	38.9
Total	43,259	48,530	12.2	1,005.7

The Bank's other operating expenses increased by 12.2% to ₱48,530 million (US$1,005.7 million) for the year ended December 31, 2014 from ₱43,259 million for the year ended December 31, 2013, primarily due to a 9.7% increase in compensation and benefits and a 21.2% increase in taxes and license costs brought about by expansion activities in 2014. Insurance expenses also increased 41.5% due to sustained growth in deposit levels. Further, the Bank's occupancy expenses increased by 15.3% as a result of the Bank's branch expansion activities and the acquisition of ONB.

Income Tax Expense

Income tax expenses increased by 101.5% to ₱4,240 million (US$87.9 million) for the year ended December 31, 2014 from ₱2,104 million for the year ended December 31, 2013, primarily due to an increase in taxable operating income for the period.

Net Profit

As a result of the foregoing, the Bank's net profit increased 0.8% to ₱22,828 million (US$473.1 million) for the year ended December 31, 2014 from ₱22,646 million for the year ended December 31, 2013.

Financial Condition

Nine months ended September 30, 2016 compared to year ended December 31, 2015

Assets

The table below sets forth the principal components of the Bank's assets as of the dates indicated.

	As of December 31, 2015	As of September 30, 2016	% change	As of September 30, 2016
	(in ₱ millions, except percentages)			(in US$ millions)
Cash and other cash items	42,729	27,820	(34.9)	576.5
Due from *Bangko Sentral ng Pilipinas*	271,808	313,627	15.4	6,499.1
Due from other banks	24,837	31,550	27.0	653.8
Trading and investment securities	225,759	278,284	23.3	5,766.7
Loans and other receivables — net	1,382,752	1,478,874	7.0	30,645.8
Office premises, furniture, fixtures and equipment	24,995	26,381	5.5	546.7
Investment properties	14,633	15,168	3.7	314.3
Equity investments — net	5,702	4,470	(21.6)	92.6
Deferred tax assets	6,079	5,943	(2.2)	123.2
Other resources — net	31,960	25,746	(19.4)	533.5
Total resources	2,031,254	2,207,863	8.7	45,752.2

Total resources increased by 8.7% to ₱2,207,863 million as of September 30, 2016 from ₱2,031,254 million as of December 31, 2015. This increase was primarily due to growth in loans and investment securities.

Cash and other cash items decreased by 34.9% to ₱27,820 million as of September 30, 2016 from ₱42,729 million as of December 31, 2015. This difference was primarily due to a high year-end cash level for 2015, which included deposits generated during the Christmas season.

Amounts due from the BSP increased by 15.4% to ₱313,627 million as of September 30, 2016 from ₱271,808 million as of December 31, 2015, following the growth in the Bank's Peso deposits.

Amounts due from other banks increased by 27.0% to ₱31,550 million as of September 30, 2016 from ₱24,837 million as of December 31, 2015. This increase was primarily due to higher placements and working balances with foreign banks.

Trading and investment securities increased by 23.3% to ₱278,284 million as of September 30, 2016 from ₱225,759 million as of December 31, 2015. This increase was primarily due to additional investments in HTM securities and the consolidation of BDO Life in June 2016.

Loans and other receivables (net) increased by 7.0% to ₱1,478,874 million as of September 30, 2016 from ₱1,382,752 million as of December 31, 2015. This increase was primarily due to an expansion in the Bank's corporate and consumer loans.

Office premises, furniture, fixtures and equipment increased by 5.5% to ₱26,381 million as of September 30, 2016 from ₱24,995 million as of December 31, 2015. This increase was primarily due to branch expansion and enhancements in the Bank's distribution channels.

Investment properties increased by 3.7% to ₱15,168 million as of September 30, 2016 from ₱14,633 million as of December 31, 2015, primarily due to an increase in the Bank's non-ROPA properties.

Equity investments decreased by 21.6% to ₱4,470 million as of September 30, 2016 from ₱5,702 million as of December 31, 2015. This decrease was primarily due to the accounting consolidation of BDO Life.

Deferred tax assets decreased by 2.2% to ₱5,943 million as of September 30, 2016 from ₱6,079 million as of December 31, 2015 due to the effects of amortization of past service costs.

Other resources decreased by 19.4% to ₱25,746 million as of September 30, 2016 from ₱31,960 million as of December 31, 2015. This decrease was primarily due to lower outgoing credit card transactions and various miscellaneous assets.

Liabilities

The table below sets forth the principal components of the Bank's liabilities as of the dates indicated.

	As of December 31, 2015	As of September 30, 2016	% change	As of September 30, 2016
	(in ₱ millions, except percentages)			(in US$ millions)
Deposit liabilities				
Demand	104,066	104,956	0.9	2,174.9
Savings	1,033,652	1,167,457	12.9	24,192.5
Time	526,135	544,037	3.4	11,273.7
Total deposit liabilities	1,663,853	1,816,450	9.2	37,641.2
Bills payable	97,543	78,150	(19.9)	1,619.5
Subordinated notes payable	10,030	10,030	—	207.8
Insurance contract liabilities	—	19,228	—	398.4
Other liabilities	60,215	68,570	13.9	1,420.9
Total liabilities	1,831,641	1,992,428	8.8	41,287.9

The Bank's total liabilities increased by 8.8% to ₱1,992,428 million as of September 30, 2016 from ₱1,831,641 million as of December 31, 2015, primarily due to the growth in the Bank's deposit liabilities.

Demand deposits increased by 0.9% to ₱104,956 million as of September 30, 2016 from ₱104,066 million as of December 31, 2015. Savings deposits increased by 12.9% to ₱1,167,457 million as of September 30, 2016 from ₱1,033,652 million as of December 31, 2015, primarily due to low-cost deposit marketing efforts. Time deposits increased by 3.4% to ₱544,037 million as of September 30, 2016 from ₱526,135 million as of December 31, 2015.

Bills payable decreased by 19.9% to ₱78,150 million as of September 30, 2016 from ₱97,543 million as of December 31, 2015, primarily due to the redemption of the Bank's US$300 million Senior Notes in April 2016.

Subordinated notes payable remained unchanged at ₱10,030 million as of September 30, 2016 compared with December 31, 2015.

The Bank recorded ₱19,228 million of insurance contract liabilities for the nine months ended September 30, 2016, as a result of the accounting consolidation of BDO Life.

Other liabilities increased by 13.9% to ₱68,570 million as of September 30, 2016 from ₱60,215 million as of December 31, 2015, primarily due to the increase in accrued expenses payable, bills purchased contra-account and miscellaneous liabilities.

Year ended December 31, 2015 compared to year ended December 31, 2014

Assets

The table below sets forth the principal components of the Bank's assets as of the dates indicated.

	As of December 31, 2014	As of December 31, 2015	% change	As of December 31, 2015
	(in ₱ millions, except percentages)			(in US$ millions)
Cash and other cash items	41,342	42,729	3.4	885.4
Due from *Bangko Sentral ng Pilipinas*	269,542	271,808	0.8	5,632.5
Due from other banks	45,621	24,837	(45.6)	514.7
Trading and investment securities	221,510	225,759	1.9	4,678.3
Loans and other receivables — net	1,212,930	1,382,752	14.0	28,653.9
Office premises, furniture, fixtures and equipment	21,093	24,995	18.5	518.0
Investment properties	13,861	14,633	5.6	303.2
Equity investments	5,332	5,702	6.9	118.2
Deferred tax assets	6,033	6,079	0.8	126.0
Other resources — net	26,385	31,960	21.1	662.3
Total resources	1,863,649	2,031,254	9.0	42,092.4

Total resources increased by 9.0% to ₱2,031,254 million as of December 31, 2015 from ₱1,863,649 million as of December 31, 2014, primarily due to industry loan growth across all customer segments.

Cash and other cash items increased by 3.4% to ₱42,729 million as of December 31, 2015 from ₱41,342 million as of December 31, 2014, primarily due to higher levels of deposit liabilities.

Amounts due from the BSP increased by 0.8% to ₱271,808 million as of December 31, 2015 from ₱269,542 million as of December 31, 2014, primarily due to increased mandatory reserves maintained with the BSP to meet reserve requirements.

Amounts due from other banks decreased by 45.6% to ₱24,837 million as of December 31, 2015 from ₱45,621 million as of December 31, 2014, primarily due to lower deposits held with foreign banks.

Trading and investment securities increased by 1.9% to ₱225,759 million as of December 31, 2015 from ₱221,510 million as of December 31, 2014, primarily due to increased holdings of Government bonds and other debt securities. Financial assets at FVTPL increased by 54.7% to ₱13,567 million during the year ended December 31, 2015, while AFS securities decreased by 0.3% to ₱212,192 million during the year ended December 31, 2015.

Loans and other receivables — net increased by 14.0% to ₱1,382,752 million as of December 31, 2015 from ₱1,212,930 million as of December 31, 2014, primarily due to growth in the Bank's loans across all major customer types.

Office premises, furniture, fixtures and equipment increased by 18.5% to ₱24,995 million as of December 31, 2015 from ₱21,093 million as of December 31, 2014, primarily due to growth in the number of branches and the addition of ONB's distribution network.

Investment properties increased by 5.6% to ₱14,633 million as of December 31, 2015 from ₱13,861 million as of December 31, 2014, primarily due to foreclosures and *dacion en pago* (payment in kind) payments.

Equity investments increased by 6.9% to ₱5,702 million as of December 31, 2015 from ₱5,332 million as of December 31, 2014, on account of earnings of associates engaged in real estate and insurance.

Deferred tax assets increased by 0.8% to ₱6,079 million as of December 31, 2015 from ₱6,033 million as of December 31, 2014 due to the consolidation of ONB.

Other resources increased by 21.1% to ₱31,960 million as of December 31, 2015 from ₱26,385 million as of December 31, 2014, primarily due to goodwill related to the acquisition of ONB and higher levels of miscellaneous assets.

Liabilities

The table below sets forth the principal components of the Bank's liabilities as of the dates indicated.

	As of December 31, 2014	**As of December 31, 2015**	**% change**	**As of December 31, 2015**
	(in ₱ millions, except percentages)			**(in US$ millions)**
Deposit liabilities				
Demand	85,807	104,066	21.3	2,156.5
Savings	872,976	1,033,652	18.4	21,419.7
Time	533,499	526,135	(1.4)	10,902.8
Total deposit liabilities	1,492,282	1,663,853	11.5	34,479.0
Bills payable	100,361	97,543	(2.8)	2,021.3
Subordinated notes payable	10,030	10,030	—	207.8
Other liabilities	81,307	60,215	(25.9)	1,247.8
Total liabilities	1,683,980	1,831,641	8.8	37,996.0

The Bank's total liabilities increased by 8.8% to ₱1,831,641 million as of December 31, 2015 from ₱1,683,980 million as of December 31, 2014, primarily due to increased funding sources in support of asset growth, particularly demand and savings deposits.

Demand deposits increased by 21.3% to ₱104,066 million as of December 31, 2015 from ₱85,807 million as of December 31, 2014. Savings deposits increased by 18.4% to ₱1,033,652 million as of December 31, 2015 from ₱872,976 million as of December 31, 2014. Time deposits decreased by 1.4% to ₱526,135 million as of December 31, 2015 from ₱533,499 million as of December 31, 2014. The higher combined growth in demand and savings deposits as against the decrease in time deposits was primarily due to the Bank's efforts to improve its funding cost mix.

Bills payable decreased by 2.8% to ₱97,543 million as of December 31, 2015 from ₱100,361 million as of December 31, 2014, primarily due to lower borrowings by means of deposit substitutes.

Subordinated notes payable remained unchanged at ₱10,030 million as of December 31, 2015 compared with December 31, 2014.

Other liabilities decreased by 25.9% to ₱60,215 million as of December 31, 2015 from ₱81,307 million as of December 31, 2014, primarily due to lower levels of accounts payable and bills purchased. Please see Note 18 to the Bank's audited financial statements for the year ended December 31, 2015, as attached to this Prospectus for more details.

Year ended December 31, 2014 compared to year ended December 31, 2013

Assets

The table below sets forth the principal components of the Bank's assets as of the dates indicated.

	As of December 31, 2013	As of December 31, 2014	% change
	(in ₱ millions, except percentages)		
Cash and other cash items	27,824	41,342	48.6
Due from *Bangko Sentral ng Pilipinas*	408,383	269,542	(34.0)
Due from other banks	26,939	45,621	69.3
Trading and investment securities	227,910	221,510	(2.8)
Loans and other receivables — net	922,553	1,212,930	31.5
Office premises, furniture, fixtures and equipment	17,908	21,093	17.8
Investment properties	10,381	13,861	33.5
Equity investments	4,839	5,332	10.2
Deferred tax assets	5,941	6,033	1.5
Other resources — net	20,100	26,385	31.3
Total resources	1,672,778	1,863,649	11.4

Total resources increased by 11.4% to ₱1,863,649 million as of December 31, 2014 from ₱1,672,778 million as of December 31, 2013. This increase was primarily due to growth in loans and receivables primarily funded by deposits.

Cash and other cash items increased by 48.6% to ₱41,342 million as of December 31, 2014 from ₱27,824 million as of December 31, 2013. This increase was primarily due to higher levels of deposit liabilities.

Amounts due from the BSP decreased by 34.0% to ₱269,542 million as of December 31, 2014 from ₱408,383 million as of December 31, 2013. This increase was primarily due to lower non-mandatory reserves being held with the BSP.

Amounts due from other banks increased by 69.3% to ₱45,621 million as of December 31, 2014 from ₱26,939 million as of December 31, 2013. This increase was primarily due to an increase in placements and working balances with other banks.

Trading and investment securities decreased by 2.8% to ₱221,510 million as of December 31, 2014 from ₱227,910 million as of December 31, 2013. AFS and FVTPL securities decreased by 2.5% and 10.1%, respectively, as a result of lower holdings of government AFS securities and non-debt securities.

Loans and other receivables — net increased by 31.5% to ₱1,212,930 million as of December 31, 2014 from ₱922,553 million as of December 31, 2013. This increase was primarily due to growth in the Bank's corporate and consumer loans.

Office premises, furniture, fixtures and equipment increased by 17.8% to ₱21,093 million as of December 31, 2014 from ₱17,908 million as of December 31, 2013. This increase was primarily due to the expansion and enhancement of the Bank's branch network.

Investment properties increased by 33.5% to ₱13,861 million as of December 31, 2014 from ₱10,381 million as of December 31, 2013. This increase was primarily due to foreclosures and *dacion en pago* payments.

Equity investments increased by 10.2% to ₱5,332 million as of December 31, 2014 from ₱4,839 million as of December 31, 2013. This increase came from earnings of associates engaged in real estate and insurance.

Deferred tax assets increased by 1.5% to ₱6,033 million as of December 31, 2014 from ₱5,941 million as of December 31, 2013, as a result of increased past service costs.

Other resources increased by 31.3% to ₱26,385 million as of December 31, 2014 from ₱20,100 million as of December 31, 2013. This increase was primarily due to increased foreign currency notes and coins on hand, increased branch licenses and retirement benefit assets.

Liabilities

The table below sets forth the principal components of the Bank's liabilities as of the dates indicated.

	As of December 31, 2013	As of December 31, 2014	% change
	(in ₱ millions, except percentages)		
Deposit liabilities			
Demand	79,601	85,807	7.8
Savings	695,243	872,976	25.6
Time	570,489	533,499	(6.5)
Total deposit liabilities	1,345,333	1,492,282	10.9
Bills payable	94,243	100,361	6.5
Subordinated notes payable	3,007	10,030	233.6
Other liabilities	65,841	81,307	23.5
Total liabilities	1,508,424	1,683,980	11.6

The Bank's total liabilities increased by 11.6% to ₱1,683,980 million as of December 31, 2014 from ₱1,508,424 million as of December 31, 2013. This increase was primarily due to an increase in funding sources in support of asset growth, particularly savings deposits.

Demand deposits increased by 7.8% to ₱85,807 million as of December 31, 2014 from ₱79,601 million as of December 31, 2013. Savings deposits increased by 25.6% to ₱872,976 million as of December 31, 2014 from ₱695,243 million as of December 31, 2013. Time deposits decreased by 6.5% to ₱533,499 million as of December 31, 2014 from ₱570,489 million as of December 31, 2013. The higher growth in demand and savings deposits was primarily due to the Bank's continued branch expansion.

Bills payable increased by 6.5% to ₱100,361 million as of December 31, 2014 from ₱94,243 million as of December 31, 2013. This increase was primarily due to higher borrowings from foreign banks.

Subordinated notes payable increased by 233.6% to ₱10,030 million in the year ended December 31, 2014 as compared to ₱3,007 million in the year ended December 31, 2013. This increase was due to the Bank's issuance on December 10, 2014 of ₱10.0 billion in unsecured subordinated notes qualifying as Tier 2 capital due in 2025.

Other liabilities increased by 23.5% to ₱81,307 million as of December 31, 2014 from ₱65,841 million as of December 31, 2013. This increase was primarily due to increases in accounts payable and bills purchased availments.

LIQUIDITY AND CAPITAL RESOURCES

For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, the Bank's principal sources of liquidity were internally generated funds from operations. As of September 30, 2016, the Bank had cash and other cash items totaling ₱27,820 million (US$576.5 million).

The Bank expects to meet its working capital, capital expenditure and investment requirements for the next 12 months from cash flows from operations and the proceeds of this Offer. It may also from time to time seek other sources of funding, which may include debt or equity financings, including peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

Cash Flows

The following table sets forth selected information from the Bank's statements of cash flows for the periods indicated.

	For the year ended December 31, 2013	2014	2015	For the nine months ended September 30, 2016
	(audited)			(unaudited)
	(in ₱ millions)			(in ₱ millions)
Cash and cash equivalents at beginning of the year	193,623	473,395	446,084	412,108
Net cash provided by (used in) operating activities	290,529	(32,441)	(12,928)	41,226
Net cash from (used in) investing activities	573	(490)	(10,211)	(30,988)
Net cash provided by (used in) financing activities	(10,930)	5,220	(10,837)	(22,666)
Net increase (decrease) in cash and cash equivalents	280,172	(27,711)	(33,976)	(12,428)
Cash and cash equivalents at end of the year	473,795	446,084	412,108	399,680

Net Cash Flow Provided By (Used In) Operating Activities

For the nine months ended September 30, 2016, the Bank recorded net cash provided by operating activities of ₱41,226 million (US$854.3 million). Cash provided by operating activities was mainly attributable to an increase in deposits.

Net Cash Flow Provided by (Used in) Investing Activities

For the nine months ended September 30, 2016, the Bank recorded net cash used in investing activities of ₱30,988 million (US$642.2 million). Cash used in investing activities was primarily directed towards HTM investments and acquisition of AFS securities.

Net Cash Flow Provided By (Used In) Financing Activities

For the nine months ended September 30, 2016, the Bank recorded net cash used in financing activities of ₱22,666 million (US$469.7 million). Cash used in financing activities was mainly attributable to payment of senior notes payable and bills payable.

Capital Resources

In July 2001, the Philippines adopted capital adequacy requirements based on the Basel Capital Accord, with which the Bank is required to comply. The following table sets out details of capital resources and capital adequacy ratios of the Bank (as reported to the BSP) as of the dates indicated.

	As of December 31,			As of September 30,
	2013	**2014**	**2015**	**2016**
	(in ₱ millions, except percentages)			
Tier 1 capital	162,543	179,390	196,639	213,361
Tier 2 capital	13,625	22,465	24,612	24,921
Total Regulatory capital	176,168	201,855	221,251	238,282
Less: Required deductions	(11,981)	(18,565)	(20,776)	(22,463)
Total qualifying capital	164,187	183,290	200,475	215,819
Risk weighted assets	1,058,789	1,273,121	1,503,291	1,673,136
Tier 1 capital adequacy ratio	14.3%	12.6%	11.7%	11.4%
Total capital adequacy ratio	15.5%	14.4%	13.3%	12.9%

CAPITAL EXPENDITURES

The Bank's capital expenditures for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were ₱7,345 million (US$152.2 million), ₱8,518 million (US$176.5 million), ₱10,251 million (US$212.4 million) and ₱5,376 million (US$111.4 million), respectively. The Bank's primary capital expenditures for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were mainly for branch expansion, new computer equipment and improvement of the Bank's premises.

KEY PERFORMANCE INDICATORS AND RATIOS

For a discussion of the Bank's key performance indicators and key ratios, see "Summary Consolidated Financial Information".

OFF-BALANCE SHEET ITEMS

The following is a summary of commitments and contingencies at their peso-equivalent contractual amounts arising from off-balance sheet items:

	As of December 31,			As of September 30,
	2013	2014	2015	2016
	(in ₱ millions)			
Trust department accounts	771,372	817,447	917,347	995,512
Committed credit lines	121,989	121,794	132,385	206,574
Forward exchange sold	133,684	140,322	104,736	126,517
Forward exchange bought	117,517	121,434	94,826	120,904
Unused commercial letters of credit	37,423	54,109	41,888	46,892
Other contingent accounts	54,505	57,286	89,171	114,426
Total	1,236,490	1,312,392	1,380,353	1,610,825

The Bank's contingent accounts for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were ₱1,236,490 million (US$25,623.0 million), ₱1,312,392 million (US$27,195.9 million), ₱1,380,353 million (US$28,604.2 million) and ₱1,610,825 million (US$33,380.1 million), respectively, mostly due to growth in trust department accounts driven by higher levels of managed funds and increase in committed credit lines driven by the growth in the Bank's credit card business.

RECENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

Information on the Bank's significant accounting policies are described in the Notes to the Bank's financial statements included elsewhere in this Prospectus.

SEASONALITY

In part due to the Bank's consumer operations, the Bank's results have historically been stronger during the annual year-end holiday season, which is the fourth quarter of the year, from October to December.

Business

OVERVIEW

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 BDO and EPCIB, which took effect on May 31, 2007. As of September 30, 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 resources and total trust funds under management. The Bank's consolidated total resources were ₱1.7 trillion, ₱1.9 trillion and ₱2.0 trillion as of December 31, 2013, 2014 and 2015, respectively, and ₱2.2 trillion as of September 30, 2016 while total capital funds stood at ₱164.4 billion, ₱179.7 billion, ₱199.6 billion and ₱215.4 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 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 September 30, 2016, the Bank had a network of 1,084 operating domestic branches (including 115 ONB branches) and one foreign branch (in Hong Kong) with 105 more domestic branch licenses for deployment. Its network includes 26 overseas remittance and representative offices (including one full service branch in Hong Kong) as of October 31, 2016, and 3,524 ATMs (including 206 ONB ATMs) and 265 CAMS as of September 30, 2016. As of September 30, 2016, the SM Group was the Bank's largest shareholder group, with an effective common equity interest of approximately 54.57% of the Bank's issued common shares.

As of September 30, 2016 the Bank had a market capitalization on the PSE of approximately ₱400.6 billion. The Bank's consolidated Tier 1 capital adequacy ratio, tangible equity-to-assets ratio and total capital adequacy ratio were 11.4%, 9.8% and 12.9%, respectively, as of September 30, 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 centers and retailing.

Until it was granted full universal bank status on August 5, 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 June 15, 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 August 29, 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 December 19, 2005, the Bank acquired United Overseas Bank Philippines' ("UOBP") branch banking business and obtained 66 branch licenses.

- On May 31, 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 February 6, 2008, the Philippine SEC approved the change of name to Banco de Oro Unibank, Inc.

- On October 30, 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 August 24, 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 August 12, 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 March 25, 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 August 24, 2014.

- On June 2, 2014, BDO acquired the trust business of Deutsche Bank AG's Manila branch comprising trust, fiduciary and investment management activities.

- On August 8, 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 December 23, 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 March 27, 2015 to BDO Unibank, Inc., approved on March 16, 2015 BDO's acquisition of ONB. On July 20, 2015, the Bank successfully completed its acquisition of ONB. The Bank has since agreed to divest a 40% stake to TPG Growth, and the closing of the transaction is currently subject to closing conditions and regulatory approvals.

- On June 9, 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 June 30, 2016, the Bank secured final regulatory approval to acquire full interest in GPHC. With effect from July 1, 2016, the operations of GPLAC have been reorganized, and GPHC and GPLAC were renamed BDO Life Assurance Holdings Corp., and BDO Life Assurance Company Inc., respectively.

Recent Offers and Capital Raising Transactions

On July 4, 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 ("CET1") 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 October 15, 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 October 15, 2019, were priced at 5.25%.

On December 10, 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 October 2, 2014. The Tier 2 notes were priced at 5.1875% per annum and will mature on March 10, 2025.

On April 6, 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 October 6, 2020.

On August 6, 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 utilized 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.

On October 24, 2016, the Bank issued Senior Notes under its US$2 billion Medium Term Note Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

Other Recent Developments

On March 21, 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 March 20, 2009.

On June 27, 2015, the Bank's Board of Directors authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued its shares to BDO Capital, which made the latter the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered thereafter with The Netherlands Chamber of Commerce on October 24, 2016.

On June 29, 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 July 22, 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 July 22, 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 August 20, 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 June 30, 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 Bank, 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 prefectures where majority of primary industries (agriculture, fishing, forestry and mining) are located. 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 July 2016 and May 2016, Shizuoka Bank, Ltd. and Aozora Bank Ltd. also entered into similar memoranda of understanding with the Bank. As of September 30, 2016, ten Japanese banks have partnered with the Bank. The Bank is in regular communication with these banks for account referrals.

On January 28, 2016, the Bank entered into a joint venture with Mitsubishi Motors Philippines Corporation ("MMPC"), Sojitz Corporation ("SJC") and JACCS Co., Ltd. ("JACCS") to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. On June 1, 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 started accepting loan applications on September 1, 2016.

On June 14, 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.

In 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.

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 September 30, 2016, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets under management. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,084 domestic branches (including 115 ONB branches). 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 corporate banking, retail banking, 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 large corporates, 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 that is expected to increase the recurring fee income contribution to the Bank's operating income. For the year ended December 31, 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 December 31, 2014. For the nine months ended September 30, 2016, the Bank's other operating income increased by 33.3% to ₱31.8 billion, from ₱23.8 billion for the nine months ended September 30, 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 distribution network, including strategic locations within SM malls and other high customer traffic areas, allows it to have wide service coverage and geographic reach, as well as greater accessibility to its customers. As of September 30, 2016, the Bank's network consists of 1,084 domestic branches (including 115 ONB branches), 3,524 ATMs (including 206 ONB ATMs), 265 CAMs, one full service branch in Hong Kong. As of October 31, 2016, the Bank also has 26 remittance and representative offices (including one full service branch in Hong Kong) 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 it has 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 CASA deposit base (comprising demand and savings deposits) increased from ₱958.8 billion as of December 31, 2014 to ₱1,137.7 billion as of December 31, 2015, representing a growth of 18.7%. As of September 30, 2016, its low cost CASA deposit base further grew to ₱1,272.4 billion. As of September 30, 2016, December 31, 2015 and 2014, 70.0%, 68.4% and 64.2%, respectively, of the Bank's total deposit base comprised of low cost CASA deposits compared to 57.6% as of December 31, 2013. In addition, the Bank also believes that its branch network and premier customer service have allowed it to actively utilize its branches to expand its loan portfolio and transform its non-interest income franchise, mainly through aggressive cross-selling of loan and other fee income related products and customer referrals across branches to increase the recurring fee income contribution to overall operating income, while reducing reliance on trading and foreign exchange related gains.

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 and changing market demands. In addition, the Bank has invested heavily into its digital banking (online and mobile) strategy and offerings which positions the Bank to create new digital revenue opportunities that increase the Bank's performance and focuses on the customer experience. The Bank believes that these initiatives make it well-placed to efficiently implement its continued goals of further large-scale expansion, business diversification and efficient 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, with certain executives and officers gaining international banking experience with some of the leading global financial institutions. 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 and related mortgage products origination via referrals from residential real estate projects, 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 effective management of 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. The Bank also expects to continue to leverage operating synergies with the SM Group to further diversify its earnings stream through product origination capabilities and fee income sources. In addition, to minimize 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, bancassurance, credit cards and investment banking. The Bank has been pro-active in transforming its non-interest earnings sources and has implemented relevant strategies such as the consolidation of BDO Life, increasing capabilities in wealth management and leveraging its distribution network to cross-sell fee income related products, which the Bank believes will increase the contribution of recurring fee income to its operating income. The Bank will also seek to more efficiently manage its resources, such as its securities portfolio, to maximize both accrual and trading income.

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

The Bank plans to continue to build its branch network across the Philippines, to 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. As a result of the Bank's continued expansion and acquisitions, as well as integration with newly-acquired entities, the Bank believes it has developed a substantial amount of operating leverage which will help it grow faster while keeping the growth of its operating expenses at a slower pace.

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 and continues to adopt 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, and will maintain its robust asset quality metrics compared to the wider Philippine banking sector. 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 accommodate future growth more easily, 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. In addition, the Bank will look to improve its digital strategy, in response to the growing impact of independent financial technology firms globally, by enhancing its digital, online and mobile banking capabilities and digital offering to customers. The Bank also expects to continue to invest in analytics and big data to further enhance its cross-selling efforts.

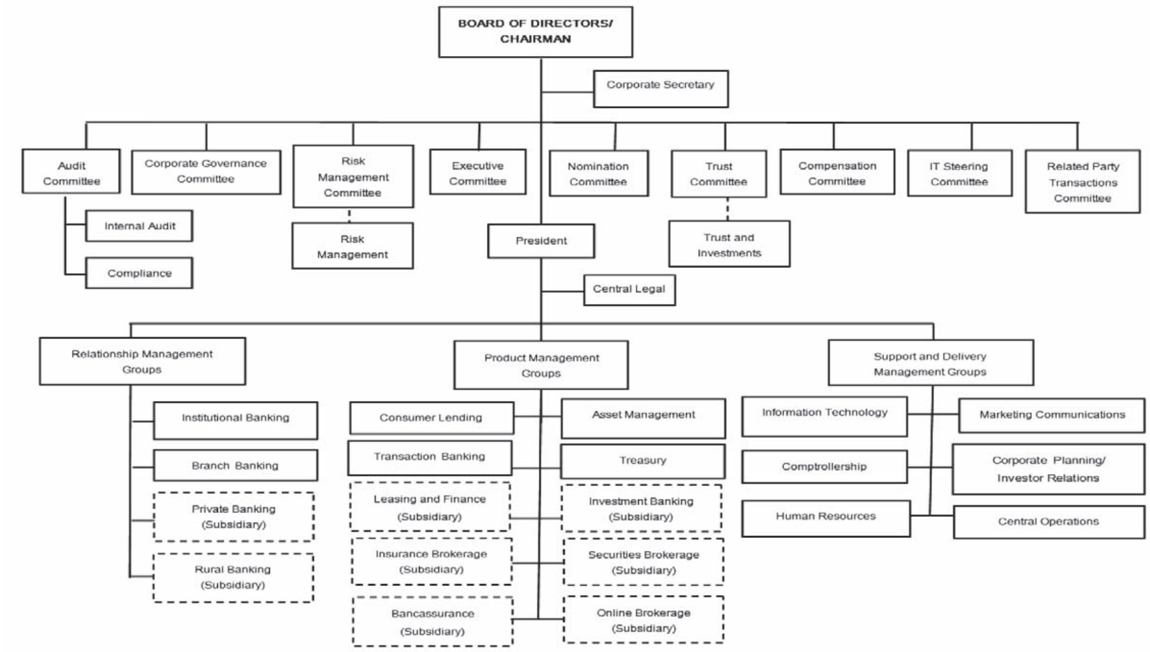
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and modernization 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 and product offering.

ORGANIZATIONAL STRUCTURE

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



BUSINESS OF THE BANK

The Bank is organized 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 institutionalize 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 76.7% of the total loan book as of September 30, 2016, amounting to ₱692.5 billion, ₱838.3 billion, ₱985.7 billion and ₱1.1 trillion as of December 31, 2013, 2014, 2015 and September 30, 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 utilize 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 specialized 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 December 31,		As of September 30,
	2014	2015	2016
	(audited)		(unaudited)
	(in ₱ millions)		(in ₱millions)
Institutional banking loans by customer type			
Corporate	510,671	593,446	665,500
Corporate	481,143	563,191	609,883
Financial institutions	8,924	6,760	5,363
Wholesale/international desks	20,604	23,495	50,254
Commercial	327,627	392,302	417,720
Total	838,298	985,748	1,083,220

Corporate Banking

Corbank services approximately 1,500 large 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 utilize for trade financing or other forms of credit.

As of December 31, 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 September 30, 2016, corporate loans grew by 13.7% year-on-year to ₱665.5 billion, representing 47.1% of the Bank's total loan portfolio of ₱1,412.1 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 December 31, 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 September 30, 2016 the Bank's commercial loan portfolio totaled ₱417.7 billion, representing 29.6% 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 organized to capitalize 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 Organization for Economic Development and Cooperation, and multilateral organizations. WLID provides its eligible clientele wholesale funds available from Government Financial Institutions for specialized 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 December 31, 2013, 2014, 2015 and September 30, 2016, total deposits were ₱1,345.3 billion, ₱1,492.3 billion, ₱1,663.9 billion and ₱1,816.5 billion, respectively, with Peso deposits representing approximately 82.4%, 80.4%, 81.0% and 80.3%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. The Bank currently has approximately 7.7 million customers. As of September 30, 2016, the Bank's branch network comprised of 1,084 domestic branches (including 115 ONB branches) and one foreign branch, with 105 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 3,524 ATM facilities (including 206 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 authorized limits. The Bank continues to maintain adequate insurance coverage for loss and theft.

The Bank was recognized 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 recognized 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 solutions 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 December 31, 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 December 31, 2015, BDO's consumer loans increased by 29.4% from ₱196.8 billion as of December 31, 2014 to ₱254.6 billion, contributing 19.9% to BDO's total loan portfolio. As of September 30, 2016, the Bank's consumer loans increased by 18.4% to ₱288.3 billion from ₱243.5 billion as of September 30, 2015, contributing 20.4% of the Bank's total loan portfolio.

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

	As of December 31, 2013	As of December 31, 2014	As of December 31, 2015	As of September 30, 2016
	(audited)			(unaudited)
	(in ₱ millions)			(in ₱millions)
Consumer loans by type				
Credit cards	34,068	35,985	39,921	42,833
Real estate mortgages	91,475	106,794	130,749	149,170
Auto loans	38,700	44,737	53,214	63,637
Personal loans	933	803	18,280	19,825
Business loans	6,988	8,447	12,473	12,816
Total	172,164	196,766	254,637	288,281

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 December 31, 2013, 2014, 2015 and September 30, 2016, the Bank had combined cards-in-force of 1,699,247, 1,579,504, 1,529,711 and 1,679,798, respectively, and had a receivable portfolio of ₱34.1 billion, ₱36.0 billion, ₱39.9 billion and ₱42.8 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, Diners Club International, 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 amortizations 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 ₱149.2 billion, respectively, as of December 31, 2013, 2014, 2015 and September 30, 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, has 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 amortizing repayment schedules over the term of the loan.

Continued strategic partnerships with auto dealers remain a competitive advantage of the Bank. As of December 31, 2013, 2014, 2015 and September 30, 2016, the Bank's auto loan portfolio stood at ₱38.7 billion, ₱44.7 billion, ₱53.2 billion and ₱63.6 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 December 31, 2013, 2014, 2015 and September 30, 2016, the personal loan portfolio stood at ₱0.9 billion, ₱0.8 billion, ₱18.3 billion and ₱19.8 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 December 31, 2013, 2014, 2015 and September 30, 2016, the Bank’s net trading and investment securities stood at ₱227.9 billion, ₱221.5 billion, ₱225.8 billion and ₱278.3 billion, respectively, and accounted for 13.6%, 11.9%, 11.1% and 12.6%, respectively, of the Bank’s total resources. For the years ended December 31, 2013, 2014 and 2015 and for the nine months ended September 30, 2016, gross revenues from investment securities stood at ₱9.2 billion, ₱7.3 billion, ₱7.5 billion and ₱6.1 billion, respectively, which represented 12.2%, 9.1%, 8.4% and 7.6%, respectively, of the Bank’s total operating income during said periods. As of December 31, 2013, 2014, 2015 and September 30, 2016, approximately 65.2%, 65.2%, 61.8% and 64.2%, respectively, of the Bank’s trading and investment securities portfolio were in government securities while the balance was in corporate issue bonds, derivative financial assets and equity securities.

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

	As of December 31,			As of September 30,
	2013	2014	2015	2016
	(audited)			(unaudited)
	(in ₱ millions)			(in ₱millions)
Investment Portfolio				
Government bonds	149,929	145,777	142,036	181,237
Other debt securities (1)	63,931	63,358	71,368	73,671
Total debt securities	213,860	209,135	213,404	254,908
Non-debt securities (2)	11,655	10,941	10,830	20,081
Derivative financial assets (3)	4,458	3,609	5,461	7,297
Total (4)	229,973	223,685	229,695	282,286

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, customized 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 12,000 corporate customers as of September 30, 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 recognized with various awards including:

- The Asian Banker (Best Cash Management Bank for 2011, 2014, 2015 and 2016; 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 recognized 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 utilizes 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 reloading, and reloading 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 personal identification numbers ("PIN") and activate Personal Online Banking enrollment at any of the ATM terminals nationwide which, as of September 30, 2016, numbered 3,524 ATMs (including 206 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 September 30, 2016, over 16.5 million cards generating a total of around 191.7 million transactions amounting to ₱612.6 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 September 30, 2016, the Bank has issued over 7.9 million BDO Cash Cards to more than 2,800 payroll companies, 50 remittance partners and millions of retail clients, generating ₱61.9 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 September 30, 2016, the Bank had an active cardholder base of over 400,000 generating about 64.1 million financial transactions worth ₱127.9 billion. Smart Money facilitates sending of money to Smart’s subscribers and encashment in over 15,000 cash servicing centers 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, BDO Remit counters inside SM malls, partner rural banks, pawnshops and courier services. As of October 31, 2016, the Bank has a wide remittance network consisting of 26 remittance and representative offices (including one full service branch in Hong Kong) worldwide. The Bank’s remittance network is complemented by relationships with at least 337 remittance/money transfer tie-ups, 627 accredited foreign and local correspondent banks and at least 30 designated agents.

For the years ended December 31, 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 nine months ended September 30, 2016, the Bank’s volume of OFW remittances was US$8.5 billion, an increase of 11.5% from its volume of OFW remittances for the nine months ended September 30, 2015.

The Bank was recognized 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 March 31, 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) rationalize 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

- Securitization — 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 Philippines, National Grid Corp. of the Phils., and Roxas Holdings.

BDO Capital has received several awards from prestigious international publications over the last 10 years recognizing 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 Fixed Income House of the Year for 2015 from the Investment House Association of the Philippines. BDO Capital 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 customized 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 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 ₱995.5 billion as of September 30, 2016, a 14.3% increase from the ₱870.9 billion managed as of September 30, 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 ₱309.7 billion as of September 30, 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 September 30, 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 recognized 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

In September 2016, 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 in the United States. PERA establishes the legal and regulatory framework for voluntary personal retirement plans as a means to promote savings mobilization, capital market development and long-term fiscal sustainability. It provides employers with the opportunity to become agents in furthering these objectives and it provides Filipinos a means to supplement their future pension benefits from the Philippine Social Security System and Philippine Government Service Insurance System. The implementing rules and regulations for PERA are currently being crafted in coordination with various regulatory agencies.

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 realized. 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 organized 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 specialized knowledge on business-functional requirements, and

- IT Operations ("ITO") which handles the Bank's network, data center, 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 programs covering recruitment and selection, talent management, manpower planning, training, performance management, organization 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 program (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 utilized 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 center 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 Center

BDO Customer Contact Center was established in June 2001 to provide customer service assistance to the Bank's retail customers, specializing 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 Center operates 24 hours a day, seven days a week, with over 421 personnel who are equipped with a customer relationship management system which allows them to deliver personalized 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 Center opened its second site in Makati, to serve as its hot site for disaster recovery.

BDO Customer Contact Center's average monthly volume from January to September 2016 was 537,825 for customer calls and 38,304 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 of September 30, 2016, the Bank employed a total of 30,813 people, 12,657 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 November 1, 2015 to October 31, 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 October 31, 2018 except the economic provisions which shall be renegotiated for the period November 1, 2018 to October 31, 2020. The Bank's latest CBA was signed on January 13, 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 December 31, 2013, 2014, 2015 and for the nine months ended September 30, 2016 were ₱16.5 billion, ₱18.1 billion, ₱21.1 billion and ₱16.1 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 of December 31, 2015, the fair value of the retirement plan assets of the Bank was ₱20.1 billion and the net present value of the obligation was at ₱18.7 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit asset of ₱1.4 billion for 2015.

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 27.1 of the notes to the audited financial statements included in this Prospectus. In addition, the Bank may be subject to various legal proceedings and claims that arise in the ordinary course of its operations.

The Bank also believes that it has all material permits and licenses necessary for its business and that these are valid and subsisting.

PEACe Bonds

On October 18, 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 July 16, 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 October 7, 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 October 16, 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 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 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 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 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 Reply 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 TRO dated November 27, 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 February 7, 2013, the Petitioners received Respondents' Motion asking for a period of 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's and RCBC Capital's Reply and Petitioners' Reply.

The Supreme Court, sitting en banc, rendered a Decision on January 13, 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 October 18, 2011.

On March 16, 2015, RCBC and RCBC Capital 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 RCBC and RCBC Capital and the Respondents.

On July 6, 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and RCBC's and RCBC Capital's Motion for Clarification and/or Partial Reconsideration (the "Petitioners' Consolidated Comment").

On July 28, 2015, the Supreme Court en banc issued a Resolution (1) noting the Petitioners' Consolidated Comment, (2) noting RCBC's and RCBC Capital's Comment on the Respondents' Motion for Reconsideration and Clarification (the "RCBC's 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's and RCBC Capital's Comment (the "Respondents' Reply") within ten days from receipt of Notice of Resolution.

On October 29, 2015, the 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 with the Supreme Court en banc. As of January 19, 2016, the Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated March 13, 2015 and RCBC's and RCAP's Motion for Clarification and/or Partial Reconsideration dated March 16, 2015.

On August 16, 2016, the Supreme Court denied the Respondents' Motion for Reconsideration and partly granted the petitioner-intervenors RCBC's and RCBC Capital's Motion for Clarification and/or Partial Reconsideration. The Supreme Court further ordered the Bureau of Treasury to immediately release and pay each of the bondholders the amount of ₱4,966, representing the 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents respectfully pray that the Honorable Court grant them leave to file and admit the Motion for Partial Reconsideration

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 foreign currency deposit unit / expanded foreign currency deposit unit or offshore banking unit.

On April 6, 2015, 19 banks ("Petitioners") filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction (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 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 and July 7, 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief and a Supplemental Motion for Reconsideration, respectively.

On August 5, 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 June 20, 2015, which seeks the reconsideration of the court's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of September 7, 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 January 19, 2016, the court 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, the court has not yet resolved LBP's Motion to Intervene.

On November 10, 2015, the Regional Trial Court of Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

The case remains pending as of September 30, 2016.

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 organization, 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.

Assets and Liabilities

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following information should be read together with the Bank's financial statements included in this Prospectus as well as the sections "Selected Statistical Data", "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Business".

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 December 31,						As of September 30,	
	2013		2014		2015		2016	
	Amount	Ave. cost(1)	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	79,601	0.1	85,807	0.1	104,066	0.1	104,956	0.1
Savings	695,243	0.3	872,976	0.3	1,033,652	0.3	1,167,457	0.3
Time	570,489	2.2	533,499	1.6	526,135	1.8	544,037	1.9
	1,345,333	1.0	1,492,282	0.8	1,663,853	0.8	1,816,450	0.8
By currency								
Philippine Peso	1,108,844	0.8	1,200,473	0.6	1,347,327	0.7	1,459,438	0.7
Foreign currency	236,489	1.7	291,809	1.3	316,526	1.2	357,012	1.1
Total deposits	1,345,333	1.0	1,492,282	0.8	1,663,853	0.8	1,816,450	0.8
Borrowings(2)								
Philippine Peso	13,494	3.8	25,391	1.1	30,708	2.0	34,677	2.4
Foreign currency	83,756	3.3	85,000	3.0	76,865	2.8	53,503	2.7
Total borrowings	97,250	3.6	110,391	2.4	107,573	2.5	88,180	2.6
Total	1,442,583	1.2	1,602,673	0.8	1,771,426	0.9	1,904,630	0.8

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 95.4% of total funding sources as of December 31, 2013, 2014, 2015, and September 30, 2016, respectively. The Bank's deposits grew at an annual compounded average rate of 14.8% from December 31, 2008 to December 31, 2015, reaching ₱1.3 trillion as of December 31, 2013, ₱1.5 trillion as of December 31, 2014 and ₱1.7 trillion as of December 31, 2015. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As of September 30, 2016, total deposits increased to ₱1.8 trillion, approximately 80.3% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 19.7% 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 December 31, 2013, 2014, 2015 and September 30, 2016, the Bank's foreign currency deposits made up 17.6%, 19.6%, 19.0% and 19.7%, respectively, of its total deposits.

As of December 31, 2013, 2014, 2015 and September 30, 2016, approximately 57.6%, 64.2%, 68.4% and 70.0%, 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 specialized lending programs amounting to ₱6.4 billion, ₱5.3 billion, ₱8.9 billion and ₱9.3 billion, respectively, as of December 31, 2013, 2014, 2015 and September 30, 2016.

As of December 31, 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 December 31, 2013, 2014 and 2015. As of September 30, 2016, the Bank's total bills payable amounted to ₱78.2 billion, of which 31.5% 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 December 31, 2013, 2014, 2015 and September 30, 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 December 31, 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 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 were listed and traded on 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 December 31, 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Bank. As of December 31, 2012, 9,600 GDRs equivalent to 192,000 shares of the Bank remained unconverted. On May 13, 2013, the Bank terminated its GDR program on the London Stock Exchange.

Long Term Negotiable Certificates of Deposit

Pursuant to a BSP approval dated January 5, 2005, the Bank issued on June 1, 2005 a total of ₱2.1 billion worth of Floating Rate Long-Term Negotiable Certificates of Deposit which matured on June 2, 2010. The Bank was among the first, if not the first, domestic bank to offer this product. Subsequently, on November 23, 2005, the Bank offered to the public ₱2.9 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit which matured on November 24, 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 October 15, 2012, the Bank issued a total of ₱5 billion worth of Fixed Rate Long-Term Negotiable Certificates of Deposit at an effective interest rate of 5.25% which will mature in October 2019. On March 25, 2013, the Bank issued another ₱5 billion worth of long term negotiable certificates of deposit at an effective interest rate of 3.80% which will mature on September 25, 2018. On September 12, 2013, the Bank issued another ₱5 billion worth of long term negotiable certificates of deposit at an effective interest rate of 3.50% which will mature on September 12, 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 November 4, 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 June 11, 2019, were issued on December 11, 2013 at an effective rate of 3.13% per annum. On April 6, 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 October 6, 2020.

Unsecured Subordinated Notes Eligible as Lower Tier 2 capital

On November 21, 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 October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board in its special meeting held on June 1, 2007. On November 21, 2012, the Bank exercised its option to redeem the notes.

On May 20, 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 April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on February 23, 2008. On May 31, 2013, the Bank exercised its option to redeem the notes.

On March 20, 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 April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board in its special meeting held on January 31, 2009. The Bank exercised its option to redeem the notes on March 21, 2014, the optional redemption date.

On June 27, 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 April 7, 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 September 27, 2021. The Bank exercised its early redemption option and redeemed the notes on September 27, 2013.

On October 7, 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 April 7, 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 January 7, 2022. The Bank exercised its early redemption option and redeemed the notes on October 7, 2013.

On December 10, 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 October 2, 2014. The Tier 2 notes were priced at 5.1875% per annum and will mature on March 10, 2025.

Dollar-Denominated Senior Note Issuance

On October 22, 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 April 22, 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 February 16, 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 February 16, 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 August 16 and February 16 starting in August 2012. The net proceeds from the issuance are for general funding and relending purposes.

On December 7, 2012, the Bank established a US$2 billion Medium Term Note Programme ("MTN Programme"). On October 24, 2016, the Bank issued Senior Notes under its MTN Programme with a face value of US$300 million at a price of 99.977%. The Senior Notes mature on October 24, 2021 and bear a fixed interest rate of 2.625% per annum. The Senior Notes are payable semi-annually every April 24 and October 24, starting in April 2017. The net proceeds from the issuance are for general corporate purposes.

Syndicated Term Loan

On August 6, 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 utilized for the refinancing of an existing term loan and for general banking and corporate purposes.

Capital-Raising Programme

On April 26, 2010, the Bank also undertook a US$250 million capital-raising program with the International Finance Corporation ("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 December 31, 2010 from 12.2% as of December 31, 2009.

On July 4, 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 at such time), further strengthened the Bank's CET1 capital.

For its acquisition of 99.59% of the total issued and outstanding capital stock of ONB, on July 20, 2015, the Bank undertook a share swap transaction where the Bank crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock to Sybase Equity Investments Corp. in exchange for 64,499,890 common shares of the Bank. The acquisition resulted in recognition of additional paid-in capital amounting to ₱6.0 billion.

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 May 30, 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 December 31, 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 resources. As of September 30, 2016, the Bank's liquid assets were ₱738.4 billion, representing 33.4% of total resources. 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 December 31,			Unaudited As of September 30,
	2013	**2014**	**2015**	**2016**
Liquidity position				
Liquid assets (in ₱ millions)	719,565	709,904	687,584	738,364
Financial ratios				
Liquid assets-to-total assets	43.0	38.1	33.9	33.4
Liquid assets-to-total deposits	53.5	47.6	41.3	40.7
Net loans-to-total deposits	65.9	71.2	75.3	76.3

LENDING

As of December 31, 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 resources as of those dates. As of September 30, 2016, the Bank's total gross loan portfolio, on a consolidated basis, amounted to ₱1,412.1 billion, representing approximately 64.0% of its total resources as of that date. The Bank's gross loan portfolio grew at a compounded annual growth rate of 18.4% from December 31, 2008 to December 31, 2015, primarily as a result of acquisitions and mergers and the Bank's efforts to expand its client base and encourage loan utilization of existing clients while managing credit quality, minimizing funding risk and maintaining an appropriate asset mix.

	Audited As of December 31,		Unaudited As of September 30,
	2014	2015	2016
		(in ₱ millions)	
Loans by major customer type			
Large corporates	510,671	593,446	665,500
Mid-market	327,627	392,302	417,720
Consumer	196,766	254,637	288,281
Others	54,305	38,967	40,616
Total	1,089,369	1,279,352	1,412,117

Industry Concentration

Real estate activities; wholesale and retail trade, repair of motor vehicles and motorcycles; manufacturing; electricity, gas, steam and air-conditioning supply and other service activities represent the largest sectors of the Bank's loan portfolio, representing 15.0%, 14.1%, 12.3%, 10.4% and 8.7%, respectively, of the Bank's loan portfolio as of September 30, 2016. These sectors represented 14.4%, 14.6%, 11.7%, 9.9% and 8.2%, respectively, of the Bank's loan portfolio as of December 31, 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 categorized by the BSP:

Industry Classifications[1]	Audited As of December 31, 2014 Amount	2014 %	2015 Amount	2015 %	Unaudited As of September 30, 2016 Amount	2016 %
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	9,124	0.8	14,702	1.1	14,246	1.0
Mining and quarrying	6,669	0.6	11,149	0.9	9,869	0.7
Manufacturing	137,676	12.6	149,197	11.7	174,183	12.3
Electricity, gas, steam and air-conditioning supply	103,584	9.5	126,441	9.9	146,947	10.4
Water supply, sewerage, waste management and remediation activities	13,987	1.3	13,450	1.1	12,299	0.9
Construction	23,196	2.1	25,942	2.0	27,292	1.9
Wholesale and retail trade, repair of motor vehicles and motorcycle	161,425	14.8	186,344	14.6	198,746	14.1
Transportation and storage	50,267	4.6	55,067	4.3	92,501	6.6
Accommodation and food services activities	32,834	3.0	38,478	3.0	43,211	3.1
Information and communication	25,462	2.3	22,930	1.8	24,158	1.7
Financial and insurance activities	181,628	16.7	169,064	13.2	120,354	8.5
Real estate activities	114,534	10.5	184,770	14.4	211,770	15.0
Professional, scientific and technical services	15,128	1.4	17,409	1.4	10,104	0.7
Administrative and support services	4,877	0.4	6,794	0.5	7,229	0.5
Public administrative and defense; compulsory social security	322	0.0	257	0.0	542	0.0
Education	1,827	0.2	9,773	0.8	11,339	0.8
Human health and social work activities	9,316	0.9	11,497	0.9	16,083	1.1
Arts, entertainment and recreation	17,613	1.6	18,308	1.4	52,533	3.7
Other service activities	66,798	6.1	105,001	8.2	122,237	8.7
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	116,418	8.2
Activities of extraterritorial organizations and bodies	53	0.0	28	0.0	56	0.0
Total	1,089,369	100.0	1,279,352	100.0	1,412,117	100.0

Note:

(1) Industry classifications are in accordance with the Philippine Standard Industrial Classification Code.

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 December 31,				Unaudited As of September 30,	
	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	427,876	30.3
Due within one to five years	129,743	11.9	189,618	14.8	245,649	17.4
Due beyond five years	526,468	48.3	679,997	53.2	738,592	52.3
Total	1,089,369	100.0	1,279,352	100.0	1,412,117	100.0

Loan Currencies

As of December 31, 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 September 30, 2016, 87.5% of the Bank's loan portfolio (net of unearned interest or discount) was in Pesos and 12.5% was in foreign currencies.

	Audited As of December 31,				Unaudited As of September 30,	
	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	1,235,154	87.5
Foreign						
USD	167,156	15.3	186,452	14.6	170,523	12.1
Yen	885	0.1	852	0.1	1,128	0.1
Other Foreign Currency	2,193	0.2	4,882	0.3	5,313	0.3
Total	1,089,369	100.0	1,279,352	100.0	1,412,118	100.0

Interest Rates

As of September 30, 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 September 30, 2016, the Bank's SBL was ₱51.1 billion. The Bank has complied with this SBL for all of its loans.

As of December 31, 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 September 30, 2016, the Bank's ten largest borrowers accounted for ₱194.7 billion, or 13.8%, of the Bank's loan portfolio.

The following sets forth a breakdown of total loans by principal amount as of September 30, 2016:

Principal amount of loans (in Pesos)	Percentage (per cent.)
Less than 5,000,000	21.8
5,000,001 to 10,000,000	4.1
10,000,001 to 15,000,000	2.1
More than 15,000,000	72.0
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 minimize 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 collateralization of a loan is desirable, the Bank's policy is to secure the full amount of the loan. As of December 31, 2013, 2014, 2015 and September 30, 2016, approximately 42.0%, 37.0%, 26.1% and 28.7%, respectively, of total loans were extended on a secured basis. Approximately 39.0%, 42.3%, 45.6% and 46.6%, 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 utilizes 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. 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 December 31, 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 September 30, 2016, DOSRI loans accounted for ₱26.9 billion or approximately 1.9% of the Bank's total loans. Of those amounts, ₱64.5 billion, ₱46.4 billion, ₱28.1 billion and ₱25.2 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as of December 31, 2013, 2014, 2015 and September 30, 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 categorization.

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 December 31,				Unaudited As of September 30,	
	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	8,413	0.6
Sub-standard	3,880	0.4	4,277	0.3	8,562	0.6
Doubtful	2,614	0.2	1,769	0.1	3,969	0.3
Loss	9,321	0.9	6,734	0.5	6,496	0.5
Total classified	31,287	2.9	32,340	2.6	27,440	2.0
Unclassified	1,033,074	97.1	1,192,178	97.4	1,324,024	98.0
Total	**1,064,361**	**100.0**	**1,224,518**	**100.0**	**1,351,464**	**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 specialized 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 the 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 which signals the 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 December 31,		As of September 30,
	2014	2015	2016
	(in ₱ millions, except ratios, which are in percentages)		
Gross non-performing loans[1]	16,298	14,983	17,503
Net non-performing loans[1]	1,287	3,388	5,864
Total loans[1]	1,211,527	1,393,547	1,476,151
Gross non-performing loans to total loans (%)[1]	1.3	1.1	1.2
Net non-performing loans to total loans (%)[1]	0.1	0.2	0.4
Non-performing loans[2]	14,197	15,790	18,357
Total loans	1,089,369	1,279,352	1,412,117
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	1.3
ROPA — net	8,847	7,278	7,586
Non-performing assets[5]	25,987	25,925	28,781
Non-performing assets as percentage of total resources (%)	1.4	1.3	1.3
Allowance for impairment of assets	29,695	29,083	29,055
Allowance for loan impairments	26,752	26,226	26,216
Allowance for ROPA impairments	2,943	2,857	2,839
Allowances for loan impairments as a percentage of total non-performing loans (NPL coverage ratio) (%)	188.4	166.1	142.8
Allowances for impairment of assets as a percentage of non-performing assets (%)	114.3	112.2	100.9
Total restructured loans	1,415	1,974	1,771
Current	52	398	204
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	2,429

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 September 30, 2016, the Bank's ten largest NPLs amounted to ₱4.6 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 December 31,				As of September 30,	
	2014	**Per cent.**	**2015**	**Per cent.**	**2016**	**Per cent.**
	(in ₱ millions, except percentages)					
Agriculture, forestry and fishing	366	2.6	620	3.9	775	4.2
Mining and quarrying	16	0.1	17	0.1	15	0.1
Manufacturing	2,616	18.4	2,559	16.2	4,814	26.2
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	14	0.1
Construction	181	1.3	200	1.3	232	1.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,337	16.5	2,499	15.8	2,940	16.0
Transportation and storage	96	0.7	89	0.6	117	0.6
Accommodation and food services activities	43	0.3	61	0.4	87	0.5
Information and communication	52	0.4	48	0.3	136	0.7
Financial and insurance activities	138	1.0	154	1.0	147	0.8
Real estate activities	412	2.9	464	2.9	468	2.5
Professional, scientific and technical services	173	1.2	194	1.2	153	0.8
Administrative and support services	124	0.9	195	1.2	217	1.2

	As of December 31,				As of September 30,	
	2014	Per cent.	2015	Per cent.	2016	Per cent.
	(in ₱ millions, except percentages)					
Public administrative and defense; compulsory social security	14	0.1	8	0.1	14	0.1
Education	11	0.1	386	2.4	645	3.5
Human health and social work activities	23	0.2	58	0.4	75	0.4
Arts, entertainment and recreation	7	0.0	7	0.0	6	0.0
Other service activities	1,985	14.0	2,603	16.5	2,822	15.4
Activities of private household as employers and undifferentiated goods and services	5,432	38.3	5,595	35.4	4,647	25.3
Activities of extraterritorial organizations and bodies	2	0.0	2	0.0	1	0.0
Total	14,197	100.0	15,790	100.0	18,357	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 nine months ended September 30, 2016, the Bank sold ₱1.7 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 December 31, 2013, 2014 and 2015, respectively, consisting of various real estate properties and shares of stock in several companies. As of September 30, 2016, the Bank's net ROPA amounted to ₱7.6 billion, or 8.3% lower than the ₱7.0 billion as of September 30, 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 December 31, 2013, 2014, 2015 and September 30, 2016, respectively.

Subsidiaries and Affiliates

BDO's diverse subsidiaries and investments in allied undertakings provide an extensive range of banking and other financial services. The table below shows selected subsidiaries and associates of the Bank as of September 30, 2016.

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.[(1)]	87.43%
Equimark — NFC Development Corp	60%
One Network Bank, Inc. ("ONB")	99.76%
PCI Insurance Brokers, Inc.*	100%
BDO Life Assurance Holdings Corp.[(1)]	98.05%

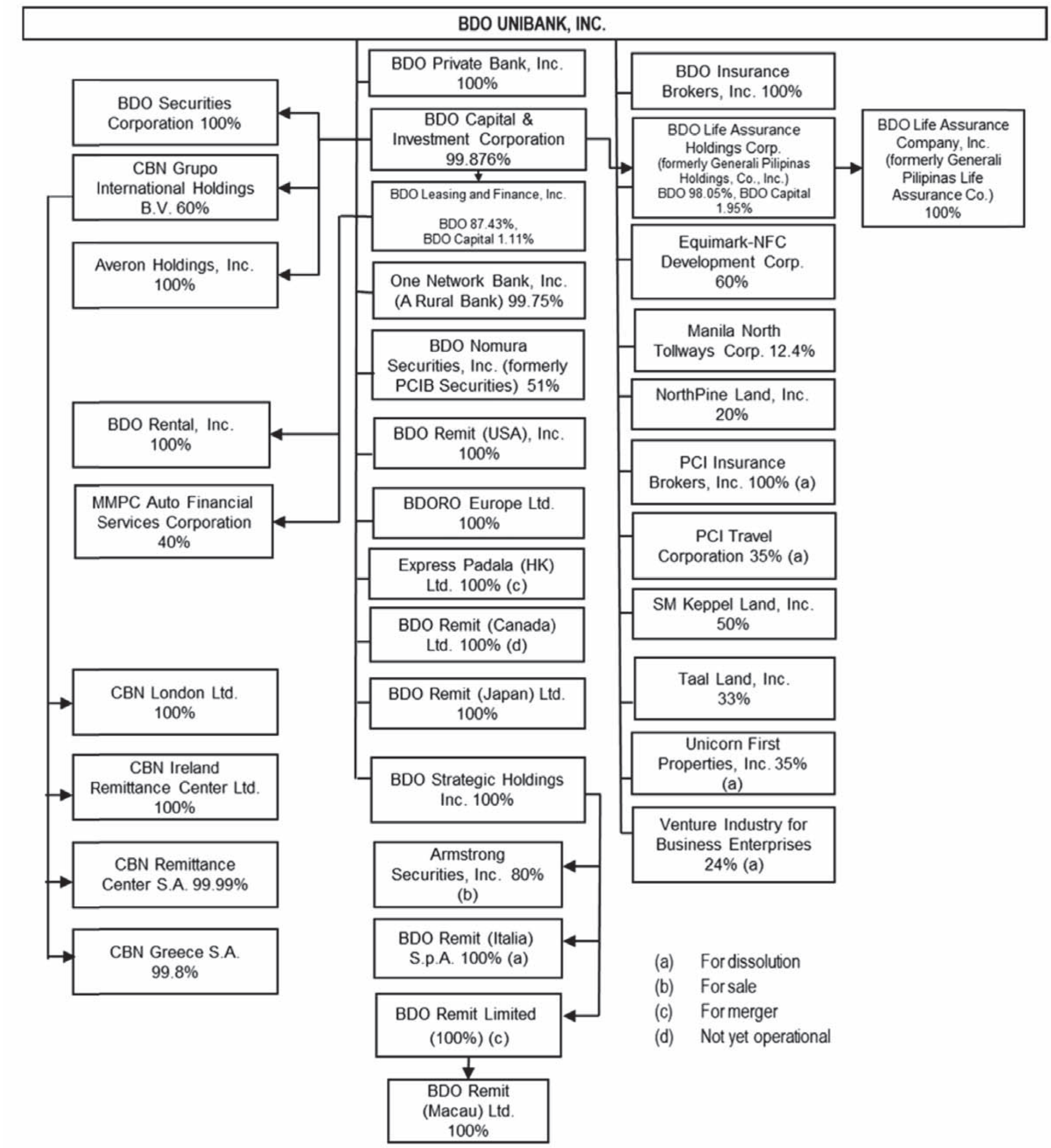
Foreign Subsidiaries	**Per cent. Interest Held**
BDO Remit (USA), Inc.	100%
Express Padala (Hongkong), Ltd.	100%
BDORO Europe Ltd.	100%
BDO Remit (Canada) Ltd.	100%
BDO Remit (Japan) Ltd.	100%

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.

(1) BDO Capital holds 1.11% and 1.95% in BDO Leasing and Finance, Inc. and BDO Life Assurance Holdings Corp., respectively.

An organizational chart of BDO's subsidiaries and associates as of September 30, 2016 appears below.



Notes:

(1) On October 21, 2016, BDO Capital's holdings in CBN Grupo increased to 96% with the issuance by CBN Grupo of 3,273,000 shares to BDO Capital. 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 "Business— Product Management — Investment Banking".

On July 22, 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 July 22, 2015, stockholders of Banco De Oro Savings approved the surrender to the BSP of its banking and trust licenses. On August 20, 2015, BDO Elite secured the BSP approval to surrender its banking and trust licenses in view of the cessation of its banking business. On July 22, 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 September 30, 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 December 31, 2013, 2014, 2015 and for the nine months ended September 30, 2016, ₱4.6 billion, ₱5.9 billion, ₱7.0 billion and ₱6.5 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 August 29, 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 December 31, 2013, 2014, 2015 and September 30, 2016, BDO Private Bank had ₱39.8 billion, ₱38.9 billion, ₱51.6 billion and ₱53.5 billion in total resources, respectively. Its total Assets Under Management as of December 31, 2013, 2014, 2015 and September 30, 2016 were at ₱242.8 billion, ₱279.4 billion, ₱308.7 billion and ₱353.1 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 September 25, 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 January 6, 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 115 branches across the Philippines and micro-banking offices in the Mindanao and Panay areas, as of September 30, 2016. The Bank completed the acquisition of ONB on July 20, 2015. In 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 June 29, 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 June 29, 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 January 27, 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 “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%. On October 24, 2016, BDO Nomura Securities, Inc. launched its online trading platform.

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 capitalized 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 June 9, 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 September 30, 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 February 15, 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 May 30, 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 authorization 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 June 23, 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 August 18, 2014. The license to operate as a fund transfer business company was granted by Kanto Financial Bureau (FSA) on December 2, 2015. Its remittance office, located at Zenken Plaza II, 1F & 2F, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo, Japan, started operations on April 1, 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. Its other major shareholders are Metrobank (35%) and Federal Homes (32%). 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 tollway 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 September 15, 2004 as BDO Remittance until it changed to its current legal name on August 3, 2009. It offers specialized 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 April 23, 1996. The corporate name was changed to Express Padala (Italia) SpA on January 1, 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 April 28, 2008 and to BDO Remit (Italia) SpA on July 29, 2009

BDO Remit (Macau) Limited

BDO Remit (Macau) Ltd., a wholly-owned subsidiary of BDO Remit, was incorporated on December 18, 1997 initially under the name of PCI Express Padala. On May 6, 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 August 17, 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 March 10, 2005. Licensed to engage in renting and leasing equipment (except finance lease), it started commercial operations on June 30, 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 October 10, 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 June 27, 2015, the Bank's Board of Directors authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued its shares to BDO Capital, which made the latter the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered thereafter with The Netherlands Chamber of Commerce on October 24, 2016.

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"), Sojitz 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 expected 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 optimize the risk-reward balance and maximize 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 optimize the risk-reward balance and maximize 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 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.

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 ₱27.8 billion of cash and ₱1,672.7 billion of short-term deposits with maturities of less than one year as of September 30, 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 ₱278.3 billion, respectively, as of December 31, 2013, 2014, 2015 and September 30, 2016, ₱17.6 billion, ₱16.9 billion, ₱31.9 billion and ₱61.1 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 ₱47.0 billion as of December 31, 2013, 2014, 2015 and September 30, 2016, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As of September 30, 2016, ₱486.1 billion, or 32.9%, 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 of September 30, 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	57	—	—	—	27,763	27,820
Due from BSP/other banks	102,306	93	601	—	242,177	345,177
Trading and investment securities	29,276	27,097	125,516	79,733	16,662	278,284
Loans and other receivables	718,550	124,396	379,261	256,667	—	1,478,874
Other resources	—	—	—	—	77,709	77,709
Total Resources	850,188	151,586	505,378	336,401	364,311	2,207,863
Liabilities and Equity:						
Deposit liabilities	404,187	53,268	101,708	16,976	1,240,312	1,816,450
Bills payable and subordinated debt	24,559	31,570	41,028	10,030	220	107,407
Other liabilities	1,085	908	3,789	139	62,650	68,570
Total Liabilities	429,831	85,746	146,525	27,144	1,303,182	1,992,428
Equity	—	—	—	—	215,435	215,435
Total Liabilities and Equity	429,831	85,746	146,525	27,144	1,518,617	2,207,863
On-book gap	420,357	65,840	358,853	309,256	(1,154,307)	—
Cumulative on-book gap	420,357	486,197	845,050	1,154,307	—	—

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 the Bank's 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, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and Board of Directors.

The Bank's market risk management limits are generally categorized 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 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 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 of September 30, 2016, the Bank's net foreign exchange exposure was US$36.1 million (based on balance sheet and contingent transactions) inclusive of the foreign exchange position of the Bank's subsidiaries, reflecting an oversold foreign exchange position.

The table below shows the Bank's resources and liabilities denominated in foreign currencies and Pesos as of September 30, 2016:

	Foreign currencies	Philippine Pesos	Total
		(in ₱ millions)	
Resources:			
Cash and other cash items	192	27,628	27,820
Due from BSP	—	313,627	313,627
Due from other banks	31,295	256	31,550
Trading and investment securities			
At FVTPL	5,376	11,286	16,662
AFS securities	79,944	40,652	120,597
HTM	100,179	40,846	141,025
Loans and other receivables	219,863	1,259,011	1,478,874
Other resources	4,196	69	4,266
Total Resources	441,045	1,693,375	2,134,420
Liabilities and Equity:			
Deposit liabilities	357,012	1,459,438	1,816,450
Bills payable	53,503	24,647	78,150
Subordinated notes payable	—	10,030	10,030
Insurance contract liabilities	5,939	13,289	19,228
Other liabilities	4,589	59,706	64,295
Total Liabilities	421,043	1,567,110	1,988,153

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 Bank, the Joint Global Coordinators, the Joint Bookrunners, 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 June 30, 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 organized 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 of June 30, 2016, there were 64 thrift banks.

Rural banks are organized 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 of June 30, 2016, there were 513 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized 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 organized 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 organized 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 liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized 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 liberalized the industry by providing that the Monetary Board may authorize 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 of September 30, 2016, there were 19 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, and as of June 30, 2016, they accounted for 9.1% of the total resources of the Philippine banking system. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated November 21, 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorized 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 liberalization of foreign ownership regulations in banks have allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank.

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 liberalization, and to the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated February 15, 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 liberalization, 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 liberalized starting January 1, 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 of September 30, 2016:

Name	Market Capitalization[1]	Total Capital[2]	Total Resources[2]	Loans and Receivables-net[2]	Customer Deposits[2]	No. of Branches[3]
			(in ₱ millions)			
BDO Unibank, Inc.	400,621	215,435	2,207,863	1,478,874	1,816,450	1,085
Metropolitan Bank & Trust Co.	271,269	210,680	1,712,191	965,088	1,249,919	958
Bank of the Philippine Islands	413,390	161,677	1,580,290	938,058	1,321,591	824
Philippine National Bank	72,825	104,623	710,776	398,124	538,565	743
China Banking Corporation	76,077	58,076	561,862	344,504	472,917	526

Notes:

(1) Market Capitalization as of September 30, 2016.

(2) Financial data taken from each bank's respective financial statements as of September 30, 2016. Includes interests in subsidiaries and allied undertakings.

(3) Number of branches (including branches of subsidiaries) was provided by each of the respective banks as of September 30, 2016, except that the number of branches for the Bank of the Philippine Islands is as of June 30, 2016. The Bank's branches are comprised of 1,084 domestic branches (including 115 ONB branches) and one foreign branch.

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.

The BSP issued Circular No. 839 Series of 2014 dated June 27, 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 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 October 20, 2014, 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		
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

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		20 million
Head Office only		
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

Notes:

* Inclusive of head office.

** With no distinction for network size.

On October 29, 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 liberalization 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 January 21, 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 January 1, 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 September 30, 2016, the ten largest commercial banks (including unlisted banks such as Land Bank of the Philippines and the Development Bank of the Philippines ("DBP"); figures for DBP were as of June 30, 2016) account for approximately 80% of total resources and 80% 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 September 30, 2016, the ten largest commercial banks (including unlisted banks such as Land Bank of the Philippines and the DBP; figures for DBP were as of June 30, 2016) account for approximately 81% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

On July 21, 2015, Republic Act No. 10667, or the Philippine Competition Act, was signed into law. It took effect on August 8, 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 June 3, 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:

- *Implementation of Basel III Framework on Liquidity Standards.* In March 2016, the BSP issued Circular No. 905 which provided guidelines for the implementation of Basel III framework on Liquidity Standards as it relates to Liquidity Coverage Ratio ("LCR") and Disclosure Standards. The Monetary Board approved the LCR framework with an observation period from July 1, 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the

BSP. On January 1, 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on January 1, 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 January 1, 2015.

- *Implementation of Basel III Framework for Dealing with Domestic Systemically Important Banks.* In October 2014, the BSP issued Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with 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. 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 January 1, 2019.

- *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 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 organized exchange, loans traded in an organized market, loans arising from repo agreements which are transacted through an exchange recognized 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 endeavor 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 recognizing UITF structures such as feeder funds and fund-of-funds. On October 21, 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 March 10, 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. UITF investments shall only be limited to bank deposits and collective investment schemes (i.e., target fund, exchange traded fund), subject to target fund not being structured nor similarly structured as a feeder fund or 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 Program, 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 authorized 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 October 31, 2008, amending Circular No. 626 dated October 23, 2008 and the Resolution of the Monetary Board No. 1423 dated October 30, 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 July 1, 2008. Any reclassification made in periods beginning on or after November 15, 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 (d) 4% against long-term negotiable certificates of time deposits under Circular No. 304 (2001), deposit substitutes evidenced by repossession agreement; (e) 6% against bonds; and (f) 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 rationalizes the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided.

Banking Regulation and Supervision

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") 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 permit an 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 letters, 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 organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, 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 authorized 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 capitalization 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:

- Unbooked 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 program.

On July 15, 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 authorized 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 authorized 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 authorized 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 authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On November 6, 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on November 21, 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual, accordingly. On February 15, 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 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 funds for five or more consecutive days;

- It is not compliant with the minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;

- It is not compliant with capital conservation buffer requirement as defined in Appendix 63b, Part III of the MORB;

- It is not compliant with the higher loss absorbency (HLA) requirement, phased-in starting January 1, 2017 with full implementation by January 1, 2019, in accordance with D-SIB Framework as provided under Subsec.X115.5 of the MORB; 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 to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, Supervision and Examination Sector of the 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 capitalization 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 October 13, 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 May 30, 2012, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on December 22, 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 liberalized pursuant to BSP Circular No. 728, issued on June 23, 2011. Under this Circular, Phase 1 of the liberalization 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 June 30, 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 and microfinance-orientated branches of regular banks branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay Micro Business Enterprises Act of 2002 (Republic Act No. 9178) may be established anywhere upon the fulfillment of certain conditions. BSP Circular No. 759 further liberalized 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 officer 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 July 1, 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 January 1, 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 January 15, 2013, the BSP issued the implementing guidelines for the adoption on January 1, 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 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 derecognized from the determination of the regulatory capital on January 1, 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 May 29, 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 October 29, 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with 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 started in 2014 with the BSP informing banks confidentially of their D-SIB statuses in 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 thus may not be appropriate for local banks. The phased-in compliance starts on January 1, 2017 before becoming fully effective on January 1, 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 June 9, 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 January 1, 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 minimize negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from July 1, 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On January 1, 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on January 1, 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 January 1, 2015.

On February 12, 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 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 was submitted on June 30, 2016 and will be re-submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a countercyclical capital buffer 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 countercyclical capital buffer 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 countercyclical capital buffer. 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 January 1, 2016 and will become fully effective on January 1, 2019. The BSP, however, has yet to release the guidelines on the countercyclical capital buffer.

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 tighter 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 October 20, 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 capitalization 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 September 30, 2016, the Bank had sufficient capital to meet the new minimum capital requirements.

As of December 31, 2013, 2014, 2015 and September 30, 2016, the Bank had a total capital adequacy ratio of 15.5%, 14.4%, 13.3% and 12.9%, respectively. Also, the Bank's Tier 1 capital adequacy ratios were 14.3%, 12.6%, 11.7% and 11.4% for the respective periods. Meanwhile, the Bank's CET1 ratio under Basel III (which became effective January 1, 2014) was 11.4% as of end-December 2015 and 11.1% as of end-September 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 socialized 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 June 27, 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 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 CET 1 capital 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 December 31, 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 Program of the Philippine government duly certified by the Secretary of Socio-Economic Planning. This shall be allowed for a period of six years from December 28, 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, endorser 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 June 2, 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 Program", such as the Expanded Housing Loans Program of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program 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 loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On June 23, 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 improvements 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 by 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 February 15, 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 March 7, 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 or 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:

- Transacts said monetary instrument or property;
- Converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
- Conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
- Attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
- Aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above; and

- 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.

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 of September 30, 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	eight 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 July 27, 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 Master's Degree 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 July 27, 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 April 25, 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 of September 30, 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%
Dioscoro 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	0.00%
Gilberto C. Teodoro, Jr. (Independent Director)	1	0.00%

The aggregate compensation paid by the Bank to its Directors for the years ended 31 December 2013, 2014 and 2015 and for the nine months ended September 30, 2016 was ₱26.0 million, ₱26.1 million, ₱30.6 million and ₱23.8 million, respectively.

As of 31 December 2013, 2014, 2015 and September 30, 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, CEO 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
Anthony 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
Edwin Romualdo G. Reyes	57	Executive Vice President, Transaction Banking
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

Name	Age	Position
Roberto E. Lapid.	60	President, BDO Leasing and Finance, Inc.
Estrellita V. Ong	61	Senior Vice President, Internal Audit
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 Services 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 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 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 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.

Alvin C. Go, Filipino, is Senior Vice President for the Legal Services Group of BDO Unibank, Inc. He was appointed Assistant Corporate Secretary and Alternate Corporate Information Officer on October 1, 2015. Prior to joining BDO, he was the Chief Legal Counsel of Philippine National Bank from 2003 to 2012. He was an Associate Attorney for Salonga, Ordonez, Yap, Corpuz, Padlan & Associates Law Offices from 1985 to 1989. He served as Prosecution Attorney from 1989 to 1990 and State Prosecutor of the Department of Justice from 1990 to 1993. He was a Senior Partner at Go and Castro Law Offices from 1999 to 2003. He obtained his Bachelor of Arts, Major in Political Science, from the Immaculate Conception College, Ozamiz City and his Bachelor of Laws from Misamis University.

Roberto E. Lapid, Filipino, was elected Vice Chairman of BDO Leasing and Finance, Inc. on December 1, 2010, and was appointed as President on April 23, 2014. He is concurrently President and Vice Chairman of Equitable Exchange, Inc. and Vice Chairmen/Director of EBC Investments, Inc. (now BDO Strategic Holdings, Inc.). He holds a Bachelor's degree in Business Administration from the University of the Philippines.

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 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 Management 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:

a. 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;

b. 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;

c. 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;

d. 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 organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and

e. 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 amortized 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 minimizing 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 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 December 31, 2013, 2014 and 2015 and Note 21 to the Bank's unaudited interim condensed financial statements as of and for the nine months ended September 30, 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 December 31,			As of September 30,
	2013	2014	2015	2016
	(in ₱ millions, except percentages)			
Total DOSRI loans	65,774	47,852	29,684	26,935
Per cent. of DOSRI loans to total loans	7.2	4.4	2.3	1.9
Per cent. of unsecured DOSRI loans to total DOSRI loans	5.9	6.7	3.9	4.6

On January 31, 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 January 31, 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 February 15, 2007 and the Bank is in compliance with such regulations.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of stockholders.

On May 12, 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 January 25, 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 December 14, 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 June 23, 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 (i.e., projects under the government's Philippine Development Plan ("PDP") and Public Investment Program ("PIP")) needed to support economic growth. Exposures to subsidiaries and affiliates in PDP or PIP projects will be subject to higher individual and unsecured limits of 25.0% and 12.5%, respectively, of the net worth of the lending bank as compared with such ceilings previously set at 10.0% and 5.0%.

The following table shows information relating to DOSRI accounts of the Bank as of December 31, 2013, 2014 and 2015, and the balance as of the nine months ended September 30, 2016:

	As of December 31,			As of September 30,
	2013	2014	2015	2016
Total outstanding DOSRI accounts (in ₱ millions)	65,773	47,852	29,684	26,935
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	1.9
Per cent. DOSRI accounts to total loans	7.2	4.4	2.3	1.9
Per cent. of unsecured DOSRI accounts to total DOSRI loans	5.9	6.7	3.9	4.6
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 December 31, 2013, 2014 and 2015, and the balance as of the nine months ended September 30, 2016 in respect of subsidiaries included in the Bank's financial statements are as follows:

	As of December 31,			As of September 30,
	2013	2014	2015	2016
	(in ₱ millions)			
Loans and receivables	14,342	22,263	47,135	52,787
Deposit liabilities	28,201	28,194	60,806	62,696

The income and expenses for the years ended 31 December 2013, 2014 and 2015, and for the nine months ended September 30, 2016 in respect of subsidiaries included in the Bank's financial statements are as follows:

	Year ended December 31,			Nine month period ended September 30,
	2013	2014	2015	2016
	(in ₱ millions)			
Interest income	2,175	2,712	3,608	4,072
Interest expense	429	631	927	1,054

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.

Principal Shareholders

PRINCIPAL SHAREHOLDERS

There has been no material change regarding control of the Bank and its relationship with the SM Group since December 31, 2015, the date of its last audited financial statements. The following table shows the principal shareholders of the Bank, holding at least 5% of the outstanding common shares, as shown in the Bank's share register as of September 30, 2016:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,463,657,368	40.12%
Multi-Realty Development Corporation	243,684,811	6.68%
Sybase Equity Investments Corporation	201,509,142	5.52%
TOTAL PRINCIPAL SHAREHOLDERS	1,908,851,321	52.32%

Other than as specified above, the Bank is not aware of any other person or group of persons, directly or indirectly, with interests of 5% or more of the issued capital stock of the Bank.

The following table contains a summary of the effective holdings of the SM Group as of September 30, 2016:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,463,657,368	40.12%
Multi-Realty Development Corporation	243,684,811	6.68%
Sybase Equity Investments Corporation	201,509,142	5.52%
SM Prime Holdings Inc.	75,254,191	2.06%
Sysmart Corporation	5,171,420	0.14%
Sub-total SM Group corporations	1,989,276,932	54.52%
Sub-total Sy Family members	1,661,485	0.05%
TOTAL SM GROUP	1,990,938,417	54.57%

Control of the Bank and relationship with the SM Group and related parties

The Bank is effectively controlled by the SM Group, the largest shareholder of the Bank. As of September 30, 2016, SMIC directly owned approximately 40.12% of the Bank's common shares, and Multi-Realty Development Corporation, Sybase Equity Investments and SM Prime Holdings Inc., other companies affiliated with the SM Group, held 6.68%, 5.52% and 2.06%, respectively of the Bank's issued share capital exclusive of the shares underlying the GDRs. Through these, other entities and certain Sy Family members, the SM Group owned directly and indirectly 54.57% of the Bank's common shares as of September 30, 2016, thus effectively controlling the Bank and the composition of its Board of Directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security ownership of record and beneficial owners

The following table sets out the record and beneficial owners of more than 5% of the Common Shares known to the Bank as of September 30, 2016:

Name of shareholder	Number of shares held	% to total
SM Investments Corporation	1,463,657,368	40.12%
Multi-Realty Development Corporation	243,684,811	6.68%
Sybase Equity Investments Corporation	201,509,142	5.52%

PCD Nominee Corporation, now known as the PDTC is the registered owner of the shares in the books of the Bank's stock transfer agent, Stock Transfer Service, Inc. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or on behalf of their clients. The participants have the power to decide how the PCD shares are to be voted.

Security ownership of management

The following table sets out the shareholding interests of the Bank's management as of September 30, 2016:

Name of shareholder	Position	Number of shares held
Walter C. Wassmer	SEVP	204,126
Jaime C. Yu	SEVP	221,786
Ador A. Abrogena	EVP	67,264
Lucy Co Dy	EVP	284,454
Pedro M. Florescio III	EVP	106,460
Eduardo V. Francisco	EVP	406,588
Ricardo V. Martin	EVP	204,126
Rolando C. Tanchanco	EVP	391,762
Dennis B. Velasquez	EVP	93,571
Evelyn L. Villanueva	EVP	397,508
Luis S. Reyes, Jr.	SVP	424,729
Rebecca S. Torres	SVP	103,533

Voting trust holders of 5% or more

The company is not aware of shareholders holding any Voting Trust Agreement of 5% or more or any such similar agreement.

Change in control

There has been no change in the control of the Bank since the beginning of its last fiscal year.

Market Price of the Bank's Stock and Related Stockholder Matters

MARKET INFORMATION

The Bank's Common Shares are traded on the PSE under the symbol "BDO".

The following table sets out, for the periods indicated, the high and low sales price for the Bank's Common Shares as reported on the PSE:

	High	Low
2012		
1st quarter	70.00	57.30
2nd quarter	70.50	60.00
3rd quarter	64.90	58.90
4th quarter	77.10	62.00
2013		
1st quarter	99.00	72.60
2nd quarter	97.00	76.65
3rd quarter	88.50	66.20
4th quarter	81.50	67.50
2014		
1st quarter	85.25	69.00
2nd quarter	93.50	84.50
3rd quarter	99.40	88.05
4th quarter	114.10	93.00
2015		
1st quarter	124.40	105.00
2nd quarter	124.00	105.50
3rd quarter	110.00	90.50
4th quarter	109.00	97.90
2016		
1st quarter	107.00	93.05
2nd quarter	116.60	97.00
3rd quarter	119.50	103.30

On December 29, 2016, the closing price of the Bank's Common Shares on the PSE was ₱112.10 per Common Share.

On December 14, 2016, the PSE approved the listing of the Rights Shares on the PSE subject to the fulfillment of certain conditions.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Joint Global Coordinators and the Joint Bookrunners, or any of their respective subsidiaries, affiliates or advisers in connection with sale of the Rights Shares.

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulatory, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked.

While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system, which integrates all bids, and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the PSE "Self-Regulatory Organization" status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of ₱120 million, of which ₱73.5 million was subscribed and fully paid-up as of June 30, 2016. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member-broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds ("ETF") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards. Previously, the PSE allowed listing on the First Board, Second Board or the Small, Medium and Enterprises Board. With the issuance by the PSE of Memorandum No. CN-No. 2013-0023 dated June 6, 2013, revisions to the PSE Listing Rules were made, among which changes are the removal of the Second Board listing and the requirement that lock-up rules be embodied in the articles of the incorporation of the Issuer. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as of the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective as of April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of 30 selected stocks listed on the PSE. In July 2010, the PSE's new trading system, now known as PSE Trade, was launched. In June 2015, the PSE Trade system was replaced by PSE Trade XTS.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices.

The table below sets out movements in the composite index from 2005 to as of September 30, 2016 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (₱ billions)	Combined Value of Turnover (₱ billions)
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007	3,621.6	244	7,978.5	1,338.3
2008	1,872.9	246	4,069.2	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	253	8,697.0	1,422.6
2012	5,812.7	254	10,930.1	1,771.7
2013	5,889.8	257	11,931.3	2,546.2
2014	7,230.6	263	14,251.7	2,130.1
2015	6,952.1	265	13,465.2	2,151.4
As of September 30, 2016	7,629.7	265	14,970.9	1,508.1

Source: PSE and PSE Annual Reports. Data for the period ended September 30, 2016 is as of the last trading day of such period.

TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading day). Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 am and ends at 12:00 pm for the morning session, and resumes at 1:30 pm and ends at 3:30 pm for the afternoon session, with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for the Company's Shares is 10 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.

- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20.0% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

NON-RESIDENT TRANSACTIONS

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

SETTLEMENT

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for: (1) synchronizing the settlement of funds and the transfer of securities through delivery versus payment, as well as clearing and settlement of transactions of clearing members, who are also PSE Trading Participants; (2) guaranteeing the settlement of trades in the event of a PSE Trading Participant's default through the implementation of its "Fails Management System" and administration of the Clearing and Trade Guaranty Fund, and; (3) performance of risk management and monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the seven existing Settlement Banks of SCCP which are Banco De Oro Unibank, Inc. ("BDO Unibank"), Rizal Commercial Banking Corporation ("RCBC"), Metropolitan Bank & Trust Company ("Metrobank"), Deutsche Bank ("DB"), Union Bank of the Philippines ("Unionbank"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and Maybank Philippines, Inc. ("Maybank"). Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("CCCS") system in May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, the PDTC, was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, RCBC, Metrobank, DB, Unionbank, HSBC and Maybank.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares to PCD Nominee will be recorded in the Issuer's registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must execute the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedure of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are generally on the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III, Part A of the PSE's Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

(a) The offer shares/securities of the applicant company in the case of an initial public offering;

(b) The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Commission in the case of a listing by way of introduction;

(c) New securities to be offered and applied for listing by an existing listed company; and

(d) Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

"For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee Corp. but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date."

"On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer's registry as a confirmation date."

ISSUANCE OF STOCK CERTIFICATES FOR CERTIFICATED SHARES

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

Philippine Foreign Exchange and Foreign Ownership Controls

REGISTRATION OF FOREIGN INVESTMENTS AND EXCHANGE CONTROLS

Under current BSP regulations, an investment in Philippine securities (such as the Rights Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such Shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. BSP Circular No. 471 (Series of 2005), as amended, however, subjects foreign exchange dealers, money changers and remittance agents to Republic Act No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit supporting documents in connection with their application to purchase foreign exchange for purposes of capital repatriation and remittance of dividends.

The application for registration may be done directly with the BSP or through a custodian bank duly designated by the foreign investor. A custodian bank may be a universal bank, commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (1) purchase invoice, subscription agreement and/or proof of listing on the PSE (for new/additional issues/stock rights); (2) original certificate of inward remittance of foreign exchange and its conversion into Pesos through an authorized agent bank in the prescribed format; and (3) Authority to Disclose in the prescribed format.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full with foreign exchange sourced from the Philippine banking system, net of applicable tax, without need of BSP approval. Remittance is permitted upon presentation of: (1) the BSP registration document; (2) the cash dividends notice from the PSE and the PCD printout of cash dividend payment or computation of interest earned; (3) copy of the corporate secretary's sworn statement on the board resolution covering the dividend declaration; and (4) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or registration, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the BSP, through the Monetary Board and with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee when an exchange crisis is imminent, or in times of national emergency. Furthermore, there can be no assurance that BSP foreign exchange regulations will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in any Rights Shares shall be the responsibility of the foreign investor.

FOREIGN OWNERSHIP CONTROLS

Under the General Banking Law, as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40% of the voting stock. The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

On July 15, 2014, 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") became law. Under RA 10641, established, reputable and financially sound foreign banks may be authorized 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 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. In relation thereto, on November 6, 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on November 21, 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual of Regulations for Banks, accordingly. The entry into law of RA 10641 did not entirely eliminate the foreign ownership controls under the General Banking Law. While qualified foreign banks may own up to 100% of voting shares in a universal bank, other foreign individuals or non-bank corporations are still subject to the 40% foreign ownership limitation under the General Banking Law.

The Philippine Constitution and related statutes also set forth restrictions on foreign ownership of companies that own land in the Philippines.

In connection with the ownership of private land, Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60.0% of whose capital is owned by such citizens.

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, reserves to Philippine Nationals all areas of investment in which foreign ownership is limited by mandate of the Constitution and specific laws. Section 3(a) of said law defines a "Philippine National" as:

- A citizen of the Philippines;
- A domestic partnership or association wholly owned by citizens of the Philippines;
- A trustee of funds for pension or other employee retirement or separation benefits where the trustee is a Philippine National and at least 60.0% of the fund will accrue to the benefit of Philippine Nationals;

- A corporation organized under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; and

- A corporation organized abroad and registered as doing business in the Philippines under the Corporation Code of the Philippines of which 100.0% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos.

However, the Foreign Investments Act of 1991 states that where a corporation (and its non-Filipino shareholders) own stock in a Philippine SEC-registered enterprise, at least 60.0% of the capital stock outstanding and entitled to vote of both the investing corporation and the investee corporation must be owned and held by citizens of the Philippines. Further, at least 60.0% of the members of the board of directors of both the investing corporation and the investee corporation must be Philippine citizens in order for the investee corporation to be considered a Philippine National.

On May 20, 2013, the SEC issued Memorandum Circular No. 8, Series of 2013 which provided guidelines (the "Guidelines") on compliance with the Filipino-Foreign ownership requirements under the Philippine Constitution and other existing laws by corporations engaged in nationalized or partly nationalized activities (the "Nationalized Corporations"). The Guidelines provide that for purposes of determining compliance with the foreign equity restrictions in Nationalized Corporations, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

Considering the foregoing, foreign ownership in the Bank is limited to a maximum of 40.0% of the Bank's outstanding capital stock. Accordingly, the Bank shall disallow the issuance or the transfer of Common Shares to persons other than Philippine Nationals and shall not record transfers in the Bank's books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

Compliance with the required ownership by Philippine Nationals of a corporation is to be determined on the basis of outstanding capital stock whether fully paid or not.

Description of the Securities

The following is general information relating to the Bank's capital stock but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of the Bank's amended articles of incorporation and amended by-laws.

SHARE CAPITAL

As of the date of this Prospectus, the Bank has an authorized capital stock of ₱65,000,000,000 with 4,500,000,000 Common Shares with a par value of ₱10.00 per share, and 2,000,000,000 preferred shares with a par value of ₱10.00 per share, of which 1,500,000,000 are Series A preferred shares. As of September 30, 2016, the Bank had 3,648,487,878 Common Shares and 515,000,000 Series A preferred shares outstanding. See "The Rights Offer". The Bank has no Common Shares held in treasury. The Offer will involve issuance of 716,402,886 new Common Shares. After the Offer, the Bank will have 4,366,475,594 outstanding Common Shares (comprised of 3,650,072,708 Common Shares as of January 3, 2017 and 716,402,886 Rights Shares).

VOTING RIGHTS OF COMMON SHARES

Each Common Share entitles the holder to one vote.

At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the transfer books for such meeting.

In accordance with Section 24 of the Corporation Code, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him as of the relevant record date for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number his shares shall equal or by distributing such votes on the same principle among any number of candidates as the stockholder shall see fit.

DIVIDEND RIGHTS OF COMMON SHARES

The Bank is allowed to declare dividends out of its unrestricted retained earnings at such times and in such percentages based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as debt service requirements, the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among other things.

The Bank's Board of Directors is authorized to declare dividends. A cash dividend declaration does not require any further approval from the shareholders. A stock dividend declaration requires the further approval of shareholders holding or representing at least two-thirds of the Bank's outstanding capital stock. The Corporation Code defines the term "outstanding capital stock" to mean the "total shares of stock issued to subscribers or stockholders, whether or not fully or partially paid (as long as there is a binding subscription agreement), except treasury shares". Such shareholders' approval may be given at a general or special meeting duly called for such purpose. See "Dividend Policy".

RIGHTS OF COMMON SHARES TO ASSETS OF THE BANK

Each holder of a Common Share is entitled to a pro rata share in the assets of the Bank available for distribution to the shareholders in the event of dissolution, liquidation and winding up.

OTHER FEATURES AND CHARACTERISTICS OF COMMON SHARES

The Common Shares are neither convertible nor subject to redemption. All of the Bank's issued Common Shares are fully paid and non-assessable and are free and clear of all liens, claims and encumbrances. All documentary stamp taxes due on the issuance of all issued Common Shares have been fully paid.

RESTRICTIONS ON TRANSFER OF COMMON SHARES

The Bank may not allow the issuance or the transfer of Common Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law. See discussions on "Risk Factors" and "Description of the Securities — Restriction on Foreign Ownership".

PRE-EMPTIVE RIGHTS

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation, which entitle them to subscribe to all issues or other disposition of shares of any class by the corporation in proportion to their respective shareholdings, subject to certain exceptions. A Philippine corporation may provide for the exclusion of these pre-emptive rights in its articles of incorporation.

The Bank's Amended Articles of Incorporation provides that stockholders shall have no pre-emptive rights to subscribe to any or all dispositions of any class of shares.

APPRAISAL RIGHTS

Under Philippine law, shareholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- In case any amendment to the corporation's articles of incorporation has the effect of changing and restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class;

- In case of any sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets;

- In case of merger or consolidation;

- In case the corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose; and

- In case of an amendment to the corporation's articles of incorporation extending extension or shortening of the term of corporate existence.

TREASURY SHARES

As of the date of this Prospectus, the Bank has no treasury Common Shares.

RESTRICTION ON FOREIGN OWNERSHIP

Under the General Banking Law, as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40% of the voting stock. The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

Since the aggregate foreign ownership in the Bank is limited to a maximum of 40% of its issued and outstanding capital stock, the Bank cannot allow the issuance or the transfer of Common Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law. This restriction may adversely affect the liquidity and market price of the Common Shares to the extent that international investors are not permitted to purchase Common Shares in normal secondary transactions.

STOCK TRANSFER AGENT

The Bank's share register is maintained at the principal office of Stock Transfer Services, Inc., which holds office at 6784 Unit D 34th Floor Rufino Pacific Tower, Ayala Avenue, Makati, Metro Manila.

CHANGE IN CONTROL

There are no existing provisions in the amended articles of incorporation or the amended by-laws of the Bank which will delay, defer or in any manner prevent a change in control of the Bank.

Philippine Taxation

The following is a general description of certain Philippine tax aspects of the investment in the Bank. The following discussion is based on the laws, regulations, rulings, income tax treaties, administrative practices and judicial decisions in effect as of the date of this Prospectus and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. The following discussion 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 Common Shares.

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the shares and does 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 rates. This discussion does not provide information regarding the tax aspects of acquiring, owning, holding or disposing of the shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the shares in such other jurisdictions.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF LOCAL AND NATIONAL TAX LAWS.

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 whose residence is not within the Philippines and who is not a citizen thereof. 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 engaged in trade or 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 engaged in trade or business in the Philippines. A "domestic corporation" is created or organized under the laws of the Philippines; a "resident foreign corporation" is a non-Philippine corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business in the Philippines.

CORPORATE INCOME TAX

A domestic corporation is subject to a tax of 30.0% of its taxable income (gross income less allowable deductions) from all sources within and outside the Philippines except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

A minimum corporate income tax of 2.0% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary corporate income tax.

Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation, which suffers losses on account of a prolonged labor dispute, or because of *force majeure*, or because of legitimate business reverses.

TAX ON DIVIDENDS

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10.0%. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax at 20.0% of the gross amount, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25.0% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are subject to withholding tax at the rate of 30.0%.

The 30.0% final withholding tax rate for inter-corporate cash and/or property dividends paid by a domestic corporation to a non-resident foreign corporation may be reduced depending on the country of domicile of the non-resident foreign corporation if it has an existing tax treaty with the Philippines. A country with a tax treaty may have a reduced preferential tax rate, generally 25.0% depending on the provisions of the corresponding tax treaties. On the other hand, a country without a tax treaty may be reduced to 15.0% if (i) the country in which the non-resident foreign corporation is domiciled imposes no tax on foreign-sourced dividends or (ii) if the country of domicile of the non-resident foreign corporation allows a credit equivalent to 15.0% for taxes deemed to have been paid in the Philippines.

Stock dividends distributed *pro rata* to any holder of shares of stock are not subject to Philippine income tax. However, if the proportionate interests of the stockholders are changed, dividends received are taxable as ordinary income in the year paid or accrued. The sale, exchange or disposition of shares received as stock dividends by the holder is subject to either the capital gains or stock transaction tax.

Philippine tax authorities have prescribed certain procedures, through an administrative issuance, for availment of tax treaty relief. The Bank shall withhold taxes at a reduced rate on dividends to be paid to a non-resident holder, if such non-resident holder provides the Bank with the tax exemption certificate, ruling or opinion issued by the Philippine BIR confirming the tax treaty relief or preferential rate, consularized proof of the non-resident holder's legal domicile or residence in the relevant treaty state, individual or corporate status (if applicable), and such other supporting documents as may be required by the Bank. Proof of legal domicile or residence for an individual consists of certification from his embassy, consulate, or other equivalent certifications issued by the proper government authority, or any other official document proving residence. If the regular tax rate is withheld by the Bank instead of the reduced rates applicable under a treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

TAXATION ON SALE, EXCHANGE, OR OTHER DISPOSITION OF SHARES

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares of stock in a Philippine corporation listed at and effected outside of the facilities of the local stock exchange, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000 and 10.0% on gains over ₱100,000.

Gains from the sale or disposition of shares in a Philippine corporation may be exempt from capital gains tax or subject to a preferential rate under a tax treaty. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities in order to obtain such exemption under a tax treaty. A prospective investor should consult its own tax adviser with respect to the applicable rates under the relevant tax treaty.

The transfer of shares shall not be recorded in the books of the Bank unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Taxes on transfer of shares listed and traded at the local stock exchange

A sale, barter, exchange or other disposition of shares of stock listed at and effected through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in cash of the shares of stock sold, bartered, exchanged or otherwise disposed, unless an applicable treaty exempts such sale from the said tax. The stock transaction tax is classified as a percentage tax and is paid in lieu of capital gains tax. In addition, a value added tax of 12.0% is imposed on the commission earned by the PSE-registered broker who facilitated the sale, barter, exchange or disposition through the PSE, and is generally passed on to the client.

DOCUMENTARY STAMP TAX

The original issue of shares is subject to documentary stamp tax of ₱1.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of ₱0.75 for each ₱200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax for a period of five (5) years from the effectiveness of Republic Act No. 9243 dated February 17, 2004. Please note that the said exemption expired on March 20, 2009. However, on June 30, 2009, former President Gloria Macapagal-Arroyo signed Republic Act 9648, which permanently exempts the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax and was made retroactive to March 20, 2009.

ESTATE AND GIFT TAXES

The transfer of shares of stock upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine taxes at progressive rates ranging from 5.0% to 20.0% (if the net estate is over ₱200,000).

Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such a transfer of shares ranging from 2.0% to 15.0% of the net gifts during the year exceeding ₱100,000. The rate of tax with respect to net gifts made to a stranger (i.e., one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a fixed rate of 30.0%.

Estate and donors' taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock: (a) if the deceased at the time of his death or the donor at the time of his 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 (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows 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

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence such gain is subject to Philippine income tax and capital gains tax and the transfer of such shares by gift (donation) or succession is subject to the donors' or estate taxes, each as described above.

The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax consideration on non-resident holders of shares of stock under laws other than those of the Philippines.

Legal Matters

Certain Philippine legal matters in connection with the Offer have been passed upon for the Bank and the Issue Manager and Domestic Underwriter by Martinez Vergara Gonzalez & Serrano, the independent legal counsel of the Bank, and for the Joint Global Coordinators and the Joint Bookrunners by Angara Abello Concepcion Regala & Cruz Law Offices.

Certain legal matters as to New York and United States federal law have been passed upon for the Joint Global Coordinators and the Joint Bookrunners by Milbank Tweed Hadley & McCloy.

The aforesaid counsels have no shareholdings in the Bank, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Bank, in accordance with the standards or independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The aforesaid legal counsels have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Bank.

Independent Auditors

The financial statements of the Group and of the Bank as of December 31, 2013, 2014 and 2015 and for the years then ended were audited by P&A, independent auditors, in accordance with PSA as stated in their report appearing herein. The unaudited interim consolidated financial statements of the Group as of September 30, 2016 and for the nine months ended September 30, 2015 and 2016 have been reviewed by P&A, independent auditors, in accordance with PSRE 2410 as stated in their report appearing herein. A review conducted in accordance with PSRE 2410 is substantially less in scope than an audit conducted in accordance with PSA and, as stated in their review report appearing in this Prospectus, P&A did not perform an audit and do not express any opinion on such unaudited financial statements included in this Prospectus. Accordingly, the degree of reliance on their review report on such information should be restricted in light of the limited nature of the review procedures applied.

Index to Financial Statements

Report on Review of Interim Consolidated Financial Information

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 September 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 nine months ended September 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.

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 September 30, 2016, and their consolidated financial performance and their cash flows for the nine months ended September 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-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511- 22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

November 21, 2016

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2016
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2015)
(Amounts in Millions of Philippine Pesos)

	Notes		**September 30, 2016**		December 31, 2015
RESOURCES					
CASH AND OTHER CASH ITEMS	5	**P**	**27,820**	P	42,729
DUE FROM BANGKO SENTRAL NG PILIPINAS	5		**313,627**		271,808
DUE FROM OTHER BANKS	6		**31,550**		24,837
TRADING AND INVESTMENT SECURITIES - Net	7		**278,284**		225,759
LOANS AND OTHER RECEIVABLES - Net	8		**1,478,874**		1,382,752
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9		**26,381**		24,995
INVESTMENT PROPERTIES - Net	10		**15,168**		14,633
OTHER RESOURCES - Net	11		**36,159**		43,741
TOTAL RESOURCES		**P**	**2,207,863**	P	2,031,254
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	13	**P**	**1,816,450**	P	1,663,853
BILLS PAYABLE	14		**78,150**		97,543
SUBORDINATED NOTES PAYABLE	15		**10,030**		10,030
INSURANCE CONTRACT LIABILITIES	16		**19,228**		-
OTHER LIABILITIES	17		**68,570**		60,215
Total Liabilities			**1,992,428**		1,831,641
EQUITY	18				
Attributable to:					
Shareholders of the Parent Bank			**214,724**		198,990
Non-controlling interest			**711**		623
Total Equity			**215,435**		199,613
TOTAL LIABILITIES AND EQUITY		**P**	**2,207,863**	P	2,031,254

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 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 54,015**	P 46,558
Trading and investment securities	7	**6,097**	5,640
Due from Bangko Sentral ng Pilipinas and other banks	5, 6	**564**	677
Others		**19**	12
		60,695	52,887
INTEREST EXPENSE ON			
Deposit liabilities	13	**10,124**	9,095
Bills payable and other liabilities	14, 15, 17	**2,122**	2,007
		12,246	11,102
NET INTEREST INCOME		**48,449**	41,785
IMPAIRMENT LOSSES	12	**2,568**	2,682
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**45,881**	39,103
OTHER OPERATING INCOME	19	**31,765**	23,822
OTHER OPERATING EXPENSES	19	**52,827**	40,896
PROFIT BEFORE PRE-ACQUISITION INCOME		**24,819**	22,029
PRE-ACQUISITION INCOME	24	(489)	-
PROFIT BEFORE TAX		**24,330**	22,029
TAX EXPENSE	25	**5,009**	4,400
NET PROFIT		**P 19,321**	P 17,629
Attributable To:			
Shareholders of the Parent Bank		**P 19,307**	P 17,603
Non-controlling interest		**14**	26
		P 19,321	P 17,629
Earnings Per Share	26		
Basic		**P 5.20**	P 4.80
Diluted		**P 5.20**	P 4.80

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	2016	2015
NET PROFIT	**P 19,321**	P 17,629
OTHER COMPREHENSIVE LOSS		
Items that will be reclassified subsequently to profit or loss:		
Net unrealized fair value losses on available-for-sale securities, net of tax	**(315)**	(3,679)
Translation adjustment related to foreign operations	**127**	(9)
	(188)	(3,688)
Items that will not be reclassified to profit or loss:		
Actuarial gains (losses) on remeasurement of retirement benefit asset, net of tax	**1**	(2)
Reversal of revaluation increment, net of tax	**-**	(19)
	1	(21)
	(187)	(3,709)
TOTAL COMPREHENSIVE INCOME	**P 19,134**	P 13,920
Attributable To:		
Shareholders of the Parent Bank	**P 19,110**	P 13,890
Non-controlling interest	**24**	30
	P 19,134	P 13,920

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 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		31	-	130	-	-	-	-	-	-	-	161	-	161
Cash dividends		-	-	-	-	-	(3,621)	-	-	-	-	(3,621)	(50)	(3,671)
		31	-	130	-	-	(3,621)	-	-	-	-	(3,460)	(50)	(3,510)
Total comprehensive income (loss)		-	-	-	-	-	19,307	(331)	1	-	133	19,110	24	19,134
Transfer to (from) Surplus Free:	18													
Appropriations during the period		-	-	-	21	-	(21)	-	-	-	-	-	-	-
Trust reserve		-	-	-	59	-	(59)	-	-	-	-	-	-	-
		-	-	-	80	-	(80)	-	-	-	-	-	-	-
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 SEPTEMBER 30, 2016		**P 36,484**	**P 5,150**	**P 70,066**	**P 2,776**	**P 12**	**P 103,724**	**(P 958)**	**(P 3,611)**	**P 1,008**	**P 73**	**P 214,724**	**P 711**	**P 215,435**
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													
Issuance of additional shares		645	-	6,028	-	-	-	-	-	-	-	6,673	-	6,673
Redemption of common stocks		-	-	-	-	-	-	-	-	-	-	-	(27)	(27)
Cash dividends		-	-	-	-	-	(7,859)	-	-	-	-	(7,859)	(43)	(7,902)
		645	-	6,028	-	-	(7,859)	-	-	-	-	(1,186)	(70)	(1,256)
Total comprehensive income (loss)		-	-	-	-	-	17,603	(3,680)	(2)	(19)	(12)	13,890	30	13,920
Transfer to (from) Surplus Free:	18													
Appropriation during the period		-	-	-	933	-	(933)	-	-	-	-	-	-	-
Trust reserves		-	-	-	44	-	(44)	-	-	-	-	-	-	-
		-	-	-	977	-	(977)	-	-	-	-	-	-	-
BALANCE AT SEPTEMBER 30, 2015		P 36,453	P 5,150	P 69,936	P 4,431	P 12	P 79,009	(P 715)	(P 3,456)	P 1,008	(P 88)	P 191,740	P 593	P 192,333

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 24,330	P 22,029
Adjustments for:			
Interest income		(60,695)	(52,887)
Interest received		60,314	52,537
Interest expense		12,246	11,102
Interest paid		(12,181)	(10,929)
Depreciation and amortization	9, 10, 11	3,489	2,875
Impairment losses		2,568	2,682
Gain on acquisition of a subsidiary	24	(2,141)	-
Fair value loss on financial assets at fair value through profit or loss (FVTPL)		385	195
Share in net profit of associates	11	(371)	(567)
Operating profit before changes in operating resources and liabilities		27,944	27,037
Increase in financial assets at FVTPL		(1,123)	(3,059)
Increase in loans and other receivables		(143,311)	(104,443)
Decrease (increase) in investment properties		(905)	668
Decrease (increase) in other resources		807	(8,216)
Increase in deposit liabilities		152,295	107,664
Increase in insurance contract liabilities		1,318	-
Increase (decrease) in other liabilities		9,260	(17,138)
Cash generated from operations		46,285	2,513
Cash paid for income taxes		(5,059)	(2,739)
Net Cash From (Used in) Operating Activities		41,226	(226)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of available-for-sale (AFS) securities		78,887	367,751
Acquisitions of AFS securities		(72,954)	(388,434)
Acquisitions of held-to-maturity (HTM) investments		(44,279)	-
Maturities of HTM investments		12,606	-
Acquisitions of premises, furniture, fixtures and equipment	9	(3,953)	(5,311)
Payment for acquisition of a new subsidiary, net of cash acquired	24	(1,392)	-
Disposals of premises, furniture, fixtures and equipment	9	97	122
Net Cash Used in Investing Activities		(30,988)	(25,872)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of senior notes		(13,995)	-
Net payments of bills payable		(5,161)	(13,867)
Dividends paid	18	(3,671)	(6,847)
Proceeds from issuance of common stock	18	161	6,673
Net Cash Used in Financing Activities		(22,666)	(14,041)
NET DECREASE IN CASH AND CASH EQUIVALENTS ***(carried forward)***		(P 12,428)	(P 40,139)

	2016	2015
NET DECREASE IN CASH AND CASH EQUIVALENTS ***(brought forward)***	**(P 12,428)**	(P 40,139)
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	**27,820**	29,599
Due from Bangko Sentral ng Pilipinas	**313,627**	269,201
Due from other banks	**31,550**	37,056
Securities purchased under reverse repurchase agreement	**24,264**	67,778
Foreign currency notes and coins	**2,419**	2,311
	P 399,680	P 405,945

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 statements of financial position.

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION
SEPTEMBER 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 September 30, 2016, BDO Unibank Group had 1,085 branches (including one foreign branch), 1,889 on-site and 1,635 off-site automated teller machines (ATMs) and 265 cash accept machines (CAMs). As of September 30, 2016, the Parent Bank had 970 branches (including one foreign branch), 1,739 on-site and 1,579 off-site ATMs and 265 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong, a real estate and a holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 0.97% and 1.13% of BDO Unibank Group's total revenues for the nine months ended September 30, 2016 and 2015, respectively. These also accounts for the 1.12% of BDO Unibank Group's total resources as of September 30, 2016 and 1.20% as of December 31, 2015.

1.2 Subsidiaries and Associates

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership September 30, 2016	December 31, 2015
Thrift Bank		
BDO Elite Savings Bank, Inc. (BDO Elite)	**-**	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings) (previously Citibank Savings, Inc.)	**-**	99.99%
Rural Bank		
One Network Bank, Inc. (A Rural Bank) (ONB)	**99.76%**	99.63%
Investment House		
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	100%
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)	**99.88%**	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%
Securities Companies		
BDO Securities Corporation (BDO Securities)	**99.88%**	100%
BDO Nomura Securities, Inc. (BDO Nomura) [previously PCIB Securities, Inc. (PCIB Securities)]	**51%**	100%
Armstrong Securities, Inc. (ASI)	**80%**	80%
Real Estate Companies		
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%
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%
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)	**59.92%**	60%
PCIB Europe S.p.A.	**100%**	100%
Others		
PCI Realty Corporation	**100%**	100%

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

On March 21, 2016, EPHG has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings was completed.

In July 2016, BDO Capital, BDO Elite and BDO Savings consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 24.2).

1.3 Approval of Interim Consolidated Financial Information

The interim consolidated financial information (unaudited) of BDO Unibank Group as of and for the nine months ended September 30, 2016 (including the comparative financial information as of December 31, 2015 and for the nine months ended September 30, 2015) were authorized for issue by the Parent Bank's President on November 18, 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 as of and 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 are presented in millions, except per share data or 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 nine months ended September 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 nine months ended September 30, 2016 (including the comparative financial information as of December 31, 2015 and for the nine months ended September 30, 2015) follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
September 30, 2016 (Unaudited)								
Statement of Income								
Total interest income								
External	P 57,732	P 72	P 1,067	P 1,301	P 514	P 9	P -	P 60,695
Intersegment	99	3	-	-	6	-	(108)	-
	57,831	75	1,067	1,301	520	9	(108)	60,695
Total interest expense								
External	11,411	-	314	465	56	-	-	12,246
Intersegment	10	40	-	32	-	27	(109)	-
	11,421	40	314	497	56	27	(109)	12,246
Net interest income	46,410	35	753	804	464	(18)	1	48,449
Other operating income								
Investment banking fees	-	898	-	-	-	-	-	898
Others	21,541	222	908	822	7,995	366	(987)	30,867
	21,541	1,120	908	822	7,995	366	(987)	31,765
Other operating expenses								
Depreciation and amortization	2,822	41	17	545	50	14	-	3,489
Impairment losses	2,477	-	-	43	48	-	-	2,568
Others	41,048	559	938	458	6,422	192	(279)	49,338
	46,347	600	955	1,046	6,520	206	(279)	55,395
Profit before pre-acquisition	21,604	555	706	580	1,939	142	(707)	24,819
Pre-acquisition income	-	-	-	-	-	-	(489)	(489)
Profit before tax	21,604	555	706	580	1,939	142	(1,196)	24,330
Tax expense	4,204	155	182	156	306	6	-	5,009
Net profit	**P 17,400**	**P 400**	**P 524**	**P 424**	**P 1,633**	**P 136**	**(P 1,196)**	**P 19,321**
Statement of Financial Position								
Total resources								
Segment assets	P 2,093,888	P 5,431	P 53,443	P 37,053	P 30,284	P 5,312	(P 31,684)	P 2,193,727
Intangible assets	5,067	102	23	46	47	1	2,907	8,193
Deferred tax assets	6,112	(196)	47	4	6	(30)	-	5,943
	P 2,105,067	**P 5,337**	**P 53,513**	**P 37,103**	**P 30,337**	**P 5,283**	**(P 28,777)**	**P 2,207,863**
Total liabilities	**P 1,893,655**	**P 2,050**	**P 47,982**	**P 31,932**	**P 23,570**	**P 2,023**	**(P 8,784)**	**P 1,992,428**
Other segment information								
Capital expenditures	**P 4,400**	**P 19**	**P 10**	**P 512**	**P 85**	**P 350**	**P -**	**P 5,376**
Investment in associates under equity method	**4,217**	**-**	**-**	**292**	**-**	**-**	**-**	**4,509**
Share in the profit of associates	**379**	**-**	**-**	**(8)**	**-**	**-**	**-**	**371**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
September 30, 2015 (Unaudited)								
Statement of Income								
Total interest income								
External	P 50,744	P 62	P 891	P 1,144	P -	P 46	P -	P 52,887
Intersegment	157	2	-	-	6	-	(165)	-
	50,901	64	891	1,144	6	46	(165)	52,887
Total interest expense								
External	10,573	-	194	335	-	-	-	11,102
Intersegment	12	53	-	76	-	25	(166)	-
	10,585	53	194	411	-	25	(166)	11,102
Net interest income	40,316	11	697	733	6	21	1	41,785
Other operating income								
Investment banking fees	-	799	-	-	-	-	-	799
Others	21,264	323	847	747	901	288	(1,347)	23,023
	21,264	1,122	847	747	901	288	(1,347)	23,822
Other operating expenses								
Depreciation and amortization	2,297	32	38	490	9	9	-	2,875
Impairment losses	2,587	2	25	67	-	1	-	2,682
Others	35,746	504	781	390	461	245	(106)	38,021
	40,630	538	844	947	470	255	(106)	43,578
Profit before tax	20,950	595	700	533	437	54	(1,240)	22,029
Tax expense	3,762	157	179	144	135	23	-	4,400
Net profit	P 17,188	P 438	P 521	P 389	P 302	P 31	(P 1,240)	P 17,629
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 (September 30, 2015 Unaudited)								
Capital expenditures	P 5,409	P 16	P 15	P 751	P 4	P 59	P -	P 6,254
Investment in associates under equity method	5,600	87	-	-	-	-	-	5,687
Share in the profit of associates	554	13	-	-	-	-	-	567

5. CASH AND DUE FROM BANGKO SENTRAL NG PILIPINAS

These accounts are composed of the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash and other cash items	**P 27,820**	P 42,729
Due from BSP		
Mandatory reserves	**283,681**	259,028
Other than mandatory reserves	**29,946**	12,780
	313,627	271,808
	P 341,447	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% to 3.0% both in 2016 and 2015.

6. DUE FROM OTHER BANKS

The balance of this account represents regular deposits with the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign banks	**P 29,014**	P 23,789
Local banks	**2,536**	1,048
	P 31,550	P 24,837

Annual interest rates on these deposits range from 0.01% to 5.0% and from 0.01% to 7.19% 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.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Financial assets at fair value through profit or loss (FVTPL)	**P 16,662**	P 13,567
Available-for-sale (AFS) securities – net	**120,597**	212,192
Held-to-maturity (HTM) investments	**141,025**	-
	P 278,284	P 225,759

7.1 Financial Assets at FVTPL

This account is composed of the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Derivative financial assets	**P 7,297**	P 5,461
Government securities	**5,782**	4,855
Other debt securities	**1,433**	3,054
	14,512	13,370
Equity securities – quoted	**2,150**	197
	P 16,662	P 13,567

Annual coupon interest rates on government and other debt securities range from 0.09% to 10.63% in 2016 and from 1.50% to 10.63% in 2015.

7.2 AFS Securities

BDO Unibank Group's AFS securities consist of the following:

	Note	**September 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
Government debt securities		**P 61,524**	P 137,181
Other debt securities			
Quoted		**44,901**	68,071
Not quoted		**243**	243
Equity securities			
Quoted		**17,207**	9,894
Not quoted		**724**	739
		124,599	216,128
Allowance for impairment	12	**(4,002)**	(3,936)
		P 120,597	P 212,192

Government debt securities issued by the Republic of the Philippines (ROP) and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual coupon rates ranging from 1.75% to 12.13% in 2016 and 1.63% to 11.63% in 2015.

BDO Unibank Group's AFS securities amounting to P4,606 and P4,745 as of September 30, 2016 and December 31, 2015, respectively, are pledged as collaterals to secure certain borrowings presented under Bills Payable account in the consolidated statements 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 September 30, 2016 and December 31, 2015, the market value of the remaining reclassified investments of BDO Unibank Group amounted to P1,928 and P9,335, respectively.

7.3 HTM Investments

As of September 30, 2016 (unaudited), this account consists of:

Government debt securities	P 113,931
Other debt securities:	
Quoted	25,826
Unquoted	1,268
	P 141,025

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 0.00% to 10.25% in 2016.

8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Receivables from customers:			
Loans and discounts	21	**P 1,318,150**	P 1,185,248
Customers' liabilities under letters of credit and trust receipts		**41,699**	46,861
Bills purchased		**10,754**	8,693
Others		**42,833**	39,922
		1,413,436	1,280,724
Unearned interest or discounts		**(1,319)**	(1,372)
Allowance for impairment	12	**(26,215)**	(26,226)
		(27,534)	(27,598)
		1,385,902	1,253,126
Other receivables:			
Interbank loans receivables		**46,957**	51,979
Securities purchased under reverse repurchase agreement		**24,264**	69,490
Accounts receivable	21, 27.1.1	**5,467**	6,446
Sales contract receivables		**1,682**	2,091
Unquoted debt securities classified as loans		**16,032**	982
Others		**268**	71
		94,670	131,059
Allowance for impairment	12	**(1,698)**	(1,433)
		92,972	129,626
		P 1,478,874	P 1,382,752

The Group's credit concentration of receivable from customers (net of unearned interest or discounts) as to industry follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Real estate activities	**P 211,770**	P 184,770
Wholesale and retail trade	**198,746**	186,344
Manufacturing	**174,183**	149,197
Electricity, gas, steam and air-conditioning supply	**146,947**	126,441
Financial and insurance activities	**120,354**	169,064
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**116,418**	112,751
Transportation and storage	**92,501**	55,067
Arts, entertainment and recreation	**52,533**	18,308
Accommodation and food service activities	**43,211**	38,478
Construction	**27,292**	25,942
Information and communication	**24,158**	22,930
Human health and social work activities	**16,083**	11,497
Agriculture, forestry and fishing	**14,246**	14,702
Water supply, sewerage, waste management and remediation activities	**12,299**	13,450
Education	**11,339**	9,773
Professional, scientific and technical services	**10,104**	17,409
Mining and quarrying	**9,869**	11,149
Administrative and support services	**7,229**	6,794
Public administrative and defense; compulsory social security	**542**	257
Activities of extraterritorial organizations and bodies	**56**	28
Other service activities	**122,237**	105,001
	P 1,412,117	P 1,279,352

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

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Secured:		
Real estate mortgage	**P 188,516**	P 152,253
Chattel mortgage	**97,403**	78,359
Other securities	**118,923**	103,387
	404,842	333,999
Unsecured	**1,007,275**	945,353
	P 1,412,117	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 4.10% and 4.00% per month in 2016 and 2015, respectively.

BDO Unibank Group's loans and other receivables amounting to P1,971 and P1,977 as of September 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 September 30, 2016 and December 31, 2015 of premises, furniture, fixtures and equipment is shown below.

	September 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	**3,953**	6,963
Depreciation and amortization charges for the period (see Note 19)	**(2,789)**	(3,203)
Reclassification	**265**	287
Disposals	**(43)**	(136)
Reversal of appraisal increment	**-**	(9)
Balance at end of period, net of accumulated depreciation, amortization and allowance for impairment	**P 26,381**	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 September 30, 2016 and December 31, 2015 of investment properties is shown in the succeeding page.

	September 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	**1,423**	3,288
Disposals	**(518)**	(2,049)
Depreciation charges for the period (see Note 19)	**(377)**	(430)
Reclassifications	**7**	(37)
Balance at end of period, net of accumulated depreciation and allowance for impairment	**P 15,168**	P 14,633

11. OTHER RESOURCES

Other resources consist of the following:

	Notes	**September 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
Deferred tax assets – net	25	**P 5,943**	P 6,079
Goodwill	24.1	**4,568**	4,399
Equity investments		**4,509**	5,741
Branch licenses		**3,020**	3,020
Foreign currency notes and coins on hand		**2,419**	3,244
Margin deposits		**1,777**	1,776
Real properties for development and sale		**1,674**	1,760
Retirement benefit assets		**1,582**	1,355
Computer software – net		**1,479**	1,067
Deposits under escrow		**671**	5,226
Non-current assets held for sale		**623**	567
Customer list – net		**502**	502
Prepaid documentary stamps		**461**	482
Dividend receivable		**51**	118
Returned checks and other cash items		**41**	112
Receivables from special purpose vehicles (SPV)		**5**	5
Interoffice float items – net		**-**	123
Others		**9,387**	10,718
		38,712	46,294
Allowance for impairment	12	**(2,553)**	(2,553)
		P 36,159	P 43,741

11.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	September 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		**371**	837
Equity in other comprehensive income (loss)		**5**	(356)
Reclassification		**-**	(501)
Step up acquisition of BDO Life	**	**(335)**	-
Dividends		**(338)**	(130)
Balance at end of year		**734**	1,031
Net investments in associates		**4,509**	5,741
Allowance for impairment		**(39)**	(39)
		P 4,470	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 24.5).*

** *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 24.3).*

****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. On August 26, 2016, BDO Unibank Group received an amount of P4,650 for the partial termination of escrow. Both as of September 30, 2016 and December 31, 2015, BDO Unibank Group provided an allowance for impairment amounting to P400. For the nine months ended September 30, 2016 and 2015, BDO Unibank Group recognized accrued income amounting to P95 and P1,269, which is presented as part of Miscellaneous under Other Operating Income account in the consolidated statements of income (see Note 19).

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., BDO Savings, ONB and SB Cards Corporation's (SB Cards) Diners Club International (Diners Club) credit card portfolio, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, 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 September 30, 2016 and December 31, 2015. In 2015, the Parent Bank written-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 September 30, 2016 and December 31, 2015.

11.6 Others

Amortization expense on computer software licenses amounted to P315 and P202 for the nine months ended September 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 P9 and P42 for the nine months ended September 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	**September 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		**2,517**	2,974
Write-offs		**(2,480)**	(5,456)
Business combination		**189**	752
Adjustments		**(49)**	(592)
Reversals		**(4)**	(25)
Foreign currency revaluation		**130**	189
Balance at end of year:			
AFS securities	7.2	**4,002**	3,936
Loans and other receivables	8	**27,913**	27,659
Bank premises		**512**	512
Investment properties		**2,288**	2,305
Other resources	11	**2,553**	2,553
		P 37,268	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 (see Notes 24.3 and 24.6).

13. DEPOSIT LIABILITIES

The breakdown of this account is presented below.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Demand	**P 104,956**	P 104,066
Savings	**1,167,457**	1,033,652
Time	**544,037**	526,135
	P 1,816,450	P 1,663,853

The breakdown of this account as to currency follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Philippine pesos	**P 1,459,438**	P 1,347,327
Foreign currencies	**357,012**	316,526
	P 1,816,450	P 1,663,853

The maturity profile of deposit liabilities is presented below.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Less than one year	**P 1,672,695**	P 1,534,073
One to five years	**61,395**	55,013
Beyond five years	**82,360**	74,767
	P 1,816,450	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 September 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:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign banks	**P 29,131**	P 38,844
Senior notes	**14,628**	28,555
Local banks	**9,085**	8,153
Deposit substitutes	**584**	570
Others	**24,722**	21,421
	P 78,150	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:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Foreign currencies	**P 53,503**	P 76,865
Philippine pesos	**24,647**	20,678
	P 78,150	P 97,543

The maturity profile of bills payable is presented below.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
One to three months	**P 22,676**	P 35,927
More than three months to one year	**28,226**	16,285
More than one to three years	**27,248**	44,123
More than three years	**-**	1,208
	P 78,150	P 97,543

Bills payable bears annual interest rate of 1.03% to 6.25% and 0.10% to 12.00% in 2016 and 2015, respectively. Certain bills payable to local banks and the BSP are collateralized by certain AFS securities and receivables from customers (see Notes 7.2 and 8).

Interest on bills payable amounted to P1,673 in 2016 and P1,613 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 September 30, 2016 and December 31, 2015, the related Senior Notes has a carrying amount of P14,628 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 September 30, 2016).

Interest on Senior Notes amounted to P665 in 2016 and P866 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 September 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 P389 both in 2016 and 2015.

16. INSURANCE CONTRACT LIABILITIES

As of September 30, 2016 (unaudited), this account consists of:

Legal policy reserves	P	18,232
Policy and contract claims payable		684
Policyholders' dividends		230
Reserves for policyholders' dividends		82
	P	**19,228**

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 September 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:

		September 30, 2016 (Unaudited)		December 31, 2015 (Audited)
Manager's checks	**P**	**11,957**	P	11,809
Accrued expenses		**11,154**		8,441
Bills purchased – contra		**10,693**		8,592
Accounts payable		**9,464**		13,208
Derivative liabilities		**6,355**		4,167
Lease deposits		**5,616**		5,087
Outstanding acceptances payable		**2,709**		1,762
Balance carried forward	**P**	**57,948**	P	53,066

		September 30, 2016 (Unaudited)		December 31, 2015 (Audited)
Balance brought forward	**P**	**57,948**	P	53,066
Premium deposit fund		**2,479**		-
Withholding taxes payable		**843**		1,386
Capitalized interest and other charges		**386**		385
Due to principal		**331**		375
Due to BSP and Treasurer of the Philippines		**81**		81
Unearned income		**3**		2
Others		**6,499**		4,920
	P	**68,570**	P	60,215

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

Interest expense on certain liabilities amounting to P60 and P5 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 September 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 September 30, 2016 and December 31, 2015 is presented in the succeeding page.

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Tier 1 Capital		
CET 1	P 208,211	P 191,489
Additional Tier 1	5,150	5,150
	213,361	196,639
Tier 2 Capital	24,921	24,612
Total Regulatory Capital	238,282	221,251
Deductions	(22,463)	(20,776)
Total Qualifying Capital	P 215,819	P 200,475
Total Risk Weighted Assets	P 1,673,136	P 1,503,291
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	12.9%	13.3%
Tier 1 Capital Ratio	11.4%	11.7%
Total CET 1 Ratio	11.1%	11.4%

18.2 Capital Stock

Capital stock consists of the following:

	Number of Shares	
	September 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	3,112,660	64,499,890
Balance at end of year	3,648,487,878	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	
	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Common shares	P 36,484	P 36,453
Preferred shares	P 5,150	P 5,150

As of September 30, 2016, there are 12,877 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 P109.80 per share as of September 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.

As of September 30, 2016, 288 ADRs valued at US$6,350 (absolute amount) remained outstanding (computed using ADR closing price of US$22.05/share). 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 August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

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

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

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P339. The dividends were paid on February 16, 2016.

On February 25, 2015, the BOD of BDO Leasing, 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 September 30, 2016 and December 31, 2015, the Parent Bank appropriated its Surplus Free amounting to P21 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 24.2).

Also, included in the 2015 surplus reserve are appropriations made by BDO Securities, BDO Nomura and ASI totaling P14 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* (nil as of September 30, 2016).

In compliance with BSP regulations, 10% of profit from trust business of BDO Private 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 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:

	Notes	For the Nine Months Ended September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Service charges and fees	21	**P 13,639**	P 11,759
Insurance premiums		**6,041**	-
Trading gain – net		**2,452**	4,378
Trust fees		**2,314**	2,155
Foreign exchange gain – net		**2,022**	1,952
Rental income		**1,097**	933
Income from assets acquired		**599**	600
Dividends	21	**380**	352
Recovery on charge-off assets		**271**	193
Miscellaneous	11.2	**2,950**	1,500
		P 31,765	P 23,822

Other operating expenses consist of the following:

	Notes	For the Nine Months Ended September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Employee benefits	20	**P 16,147**	P 13,941
Occupancy	9, 10, 11.6, 21, 27.2	**5,639**	4,850
Taxes and licenses		**5,323**	4,660
Fees and commissions		**4,496**	2,744
Insurance benefits and claims	16	**4,461**	-
Insurance		**2,821**	2,434
Advertising		**2,329**	1,779
Security, clerical, messengerial and janitorial		**2,163**	1,939
Representation and entertainment		**1,087**	980
Repairs and maintenance		**873**	722
Travelling		**843**	748
Power, light and water		**721**	676
Supplies		**453**	345
Telecommunication		**373**	314
Information technology		**326**	305
Amortization of intangibles	11.6	**315**	202
Litigation on assets acquired		**276**	97
Freight		**226**	200
Miscellaneous		**3,955**	3,960
		P 52,827	P 40,896

20. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below.

	For the Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Salaries and wages	**P 10,671**	P 9,155
Bonuses	**1,931**	1,638
Retirement – defined benefit plan	**859**	835
Social security costs	**420**	371
Other benefits	**2,266**	1,942
	P 16,147	P 13,941

21. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's transactions with its related parties as of and for the periods ended September 30, 2016 and 2015 and outstanding balances as of September 30, 2016 and December 31, 2015 are as follows:

		September 30, 2016 (Unaudited)		September 30, 2015 (Unaudited)	December 31, 2015 (Audited)
Related Party Category	**Notes**	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI Loans	21(a)				
Related Parties Under Common Ownership		**P 41,671**	**P 14,495**	P 15,531	P 16,217
Stockholders		**10,422**	**10,883**	4,237	12,012
Officers and employees		**958**	**1,557**	814	1,455
Deposit Liabilities	21(b)				
Related Parties Under Common Ownership		**337,764**	**11,551**	362,502	15,513
Stockholders		**280,295**	**61,088**	247,020	61,034
Officers and employees		**26**	**5**	-	3
Other Transactions with:					
Associates	21(d)				
Loans and Advances		**-**	**12,881**	6	1,225
Dividend Income		**338**	**-**	130	-
Interest Income		**43**	**43**	17	59
Service Fees		**-**	**-**	37	14
Related Parties Under Common Ownership	21(d)				
Rent Expense		**650**	**99**	547	78
Key Management Personnel	21(d)				
Compensation		**863,985**	**-**	667,869	-
Retirement Plan	21(c)	**100**	**3,767**	222	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 September 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:

	September 30 2016 (Unaudited)	December 31, 2015 (Audited)
Total DOSRI loans	**P 26,935**	P 29,684
Unsecured DOSRI loans	**1,249**	1,148
Past due DOSRI loans	**1**	-
Non-performing DOSRI loans	**1**	-
% of DOSRI loans to total loan portfolio	**1.9%**	2.3%
% of unsecured DOSRI loans to total DOSRI loans	**4.6%**	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 0.0% 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 for the period ended September 30, 2016 amounted to P53,051 and P55,800, respectively.

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

(b) Deposits from Related Parties

As of September 30, 2016 and December 31, 2015, total deposits made by the related parties to the Parent Bank amounted to P618,085 and P838,032, respectively. The related interest expense from deposits amounted to P1,409 and P692 for the periods ended September 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 periods ended September 30, 2016 and 2015 and outstanding balance as of September 30, 2016 and December 31, 2015 as follows:

Related Party Category	**September 30, 2016 (Unaudited)** Amount of Transaction	**September 30, 2016 (Unaudited)** Outstanding Balance	September 30, 2015 (Unaudited) Amount of Transaction	December 31, 2015 (Audited) Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	**P -**	**P 44**	P -	P 54
BDO Leasing	**-**	**1**	-	1
Investment in shares of :				
BDO Unibank, Inc.	**-**	**14**	-	14
BDO Leasing	**-**	**2**	-	1
Deposit liabilities				
BDO Unibank, Inc.	**-**	**3,706**	-	3,011
Trading gain				
BDO Unibank, Inc.	**97**	**-**	219	-
Interest expense				
BDO Unibank, Inc.	**3**	**-**	3	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group amounted to P3,706 and P3,043 as of September 30, 2016 and 2015, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P3 both in 2016 and 2015.

(d) Other Transactions with Related Parties

A summary of other transactions of the BDO Unibank Group with associates and other related parties is shown in the succeeding page. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Other transactions of the BDO Unibank Group with associates are shown below.

(1) Loans and Advances to Associates

As of September 30, 2016 and December 31, 2015, outstanding loans and advances to associates amounted to P12,881 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 P43 and P17 interest income on these loans for the nine months ended September 30, 2016 and 2015, respectively. Annual interest rate on these loans ranges from 0.00% to 7.04% for the nine months ended September 30, 2016 and 2015. As of September 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 September 30, 2016, the Group has fully acquired GPHCI, making the latter a subsidiary of the former (see Note 24.3). However, prior to the full acquisition of GPHCI, the Group has recorded its share in the income of GPHCI during the period ended September 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 nine months ended September 30, 2015 amounted to P37 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 nine months ended September 30, 2015 amounted to P135 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 nine months ended September 30, 2016 and 2015, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P338 and P130, respectively. These are presented as part of Dividends under Other Operating Income in the consolidated statements of income (see Note 19).

(ii) Other transactions of the Parent Bank with related parties under common ownership are shown below and in the succeeding page.

(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 nine months ended September 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 Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Salaries and wages	**P 608,805**	P 530,973
Bonuses	**224,110**	96,931
Social security costs and other benefits	**31,070**	39,965
	P 863,985	P 667,869

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).

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Investments	**P 988,386**	P 910,720
Others	**7,126**	6,627
	P 995,512	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 September 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 BDO Life. The VUL funds are managed by the Trust and Investment Group of the Parent Bank.

As of September 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	71
Financial assets at FVTPL		2,754
Other receivables		2
	P	**2,827**
Liabilities and Equity:		
Other liabilities	P	79
Net assets attributable to unitholders (see Note 16)		2,748
	P	**2,827**

24. MERGERS AND ACQUISITIONS

24.1 Acquisition of Credit Card Portfolio

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

The Parent Bank recognized the acquisition-date fair value of the credit card receivables and liabilities assumed including the cost of investment as follows:

Credit card receivables	P	597
Liabilities	(	19)
Net asset acquired		578
Cash consideration		743
Goodwill (see Note 11)	P	165

24.2 Three-Way Merger among BDO Capital, BDO Savings and BDO Elite

On July 22, 2015, the shareholders of BDO Capital, BDO Savings and BDO Elite approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 98.82% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The merger was approved by the SEC on June 30, 2016. Approved documents were received only on July 21, 2016; thus, the consolidation took effect on July 31, 2016.

In the implementation of the merger, all the shares of the capital stock of BDO Elite and BDO Savings issued and outstanding on the effective date of the merger were cancelled. A total of 7,000,399 new shares of stock of BDO Capital were then issued in exchange for the cancelled BDO Elite and BDO Savings shares of stock, as follows:

(a) 1,000,000 shares out of the unissued authorized capital stock; and,
(b) 6,000,399 shares out of the increase in authorized capital stock.

The BDO Elite and BDO Savings shareholders were issued a total of 3,391,113 and 3,609,286 BDO Capital shares, respectively. The transaction resulted in the recognition of gain on merger amounting to P4.

24.3 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 September 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 to 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		27,454
Insurance liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net asset position *(carried forward)*	P	6,371

Net asset position *(brought forward)*	P 6,371
Equity share in associate	(1,987)
Cost of investment	(2,243)
Gain on acquisition	P 2,141

24.4 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.

24.5 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 jointly hold the remaining 60% stake (see Note 11.1).

24.6 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.

As of September 30, 2016, the Parent Bank acquired additional 320,566 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

25. TAXES

The major components of tax expense reported in the consolidated statements of income follow:

	For the Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Reported in profit or loss:		
Current tax expense	**P 4,867**	P 4,201
Deferred tax expense relating to origination and reversal of temporary differences	**142**	199
	P 5,009	P 4,400
Reported in other comprehensive income:		
Movement in fair value of AFS securities	**P 195**	P 14
Movement in revaluation increment	**-**	(6)
	P 195	P 8

The components of the net deferred tax assets (see Note 11) follow:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Deferred tax assets:		
Allowance for impairment	P 6,028	P 6,117
Unamortized past service cost	1,303	1,445
Lease income differential – PAS 17	106	106
Net operating loss carryover	6	17
Others	181	44
	7,624	7,729
Deferred tax liabilities:		
Retirement asset	774	776
Revaluation increment	432	432
Changes in fair values of AFS securities	269	74
Lease income differential – PAS 17	87	85
Capitalized interest	54	56
Others	65	227
	1,681	1,650
Net deferred tax assets	P 5,943	P 6,079

26. EARNINGS PER SHARE

26.1 Basic Earnings Per Share

Basic earnings per share are computed as follows:

	For the Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	P 19,307	P 17,603
Less dividends in arrears on preferred shares	339	339
Total	18,968	17,264
Divided by the weighted average number of outstanding common shares (in millions)	3,647	3,598
Basic earnings per share	P 5.20	P 4.80

26.2 Diluted Earnings Per Share

Diluted earnings per share are computed as follows:

	For the Nine Months Ended			
	September 30, 2016 (Unaudited)		September 30, 2015 (Unaudited)	
Net profit attributable to shareholders of the Parent Bank	**P**	**18,968**	P	17,264
Divided by the weighted average number of outstanding common shares (in millions)		**3,647**		3,598
Diluted earnings per share	**P**	**5.20**	P	4.80

* *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 September 30, 2016, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's consolidated financial information.

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. On 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 which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the Bureau of Treasury to immediately release and pay the bondholders the amount of P4,966, representing the 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

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

The Parent Bank has previously booked 20% FWT amounting to P690 as part of Accounts receivable account presented under Loans and Other Receivables in the consolidated statements of financial position (see Note 8).

27.1.2 Applicability of Revenue Regulations (RR) No. 4-2011

On March 15, 2011, the BIR issued RR No. 4-2011regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, 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. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

The case remains pending as of September 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 September 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 consolidated statements of income, amounted to P1,849 and P2,073 for the nine months ended September 30, 2016 and 2015, respectively (see Note 19).

As of September 30, 2016 (unaudited), the estimated minimum future annual rentals follow:

Within one year	P	2,505
More than one year but not more than five years		12,570
More than five years		4,683

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 September 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	**September 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
Trust department accounts	22	**P 995,512**	P 917,347
Committed credit lines		**206,574**	132,385
Forward exchange sold		**126,517**	104,736
Forward exchange bought		**120,904**	94,826
Unused commercial letters of credit		**46,892**	41,888
Outstanding guarantees issued		**28,658**	18,916
Interest rate swap payable		**18,841**	16,554
Interest rate swap receivable		**18,841**	16,554
Spot exchange sold		**15,898**	6,738
ROP warrants		**15,021**	15,021
Bills for collection		**5,400**	5,213
Spot exchange bought		**5,066**	3,000
Late deposits/payments received		**3,221**	2,404
Export letters of credit confirmed		**1,431**	2,577
Other contingent accounts		**2,048**	2,194

28. EVENTS AFTER THE END OF THE REPORTING PERIOD

28.1 Issuance of US$300 Senior Notes

On October 24, 2016, the Parent Bank issued US$300 in Fixed Rate Senior Notes under the Medium Term Note Program. The issuance of Senior Notes is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds worth US$300 maturing in February next year. The issue was priced at 2.630% with a maturity after five years.

28.2 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in CBN Grupo for €3. The BSP approved the investment in March 2016. On October 21, 2016, CBN Grupo issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of CBN Grupo. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016.

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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)

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

See Notes to Financial Statements.

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	2014	2013	Parent Bank 2015	2014	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 Cash and Cash Equivalents*	2015 Receivables from Customers**	2015 Trading and Investment Securities***	2014 Cash and Cash Equivalents*	2014 Receivables from Customers**	2014 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 Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values 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 Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values 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 **2015**	BDO Unibank Group 2014	Parent Bank **2015**	Parent Bank 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 **2015**	BDO Unibank Group 2014	Parent Bank **2015**	Parent Bank 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.

BDO Unibank Group

	Land		Buildings		Total	
Balance at January 1, 2015, net of accumulated depreciation and impairment	P	8,193	P	5,668	P	13,861
Additions		1,392		1,896		3,288
Disposals	(	1,853)	(	196)	(	2,049)
Reclassifications		71	(	108)	(	37)
Depreciation for the year		-	(	430)	(	430)
Balance at December 31, 2015, net of accumulated depreciation and impairment	**P**	**7,803**	**P**	**6,830**	**P**	**14,633**

	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		Profit allocated to NCI		Accumulated NCI	
	2015	2014	**2015**	2014	**2015**	2014
BDO Leasing	**11.46%**	11.46%	**P 64**	P 57	**P 598**	P 571

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

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

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

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

	MNTC	**Generali**	**SM Keppel**	**Others**	**Total**
December 31, 2015 (Unaudited)					
Assets	**P 30,687**	**P 22,975**	**P 2,643**	**P 2,478**	**P 58,783**
Liabilities	**22,586**	**19,009**	**369**	**723**	**42,687**
Equity	**8,101**	**3,966**	**2,274**	**1,755**	**16,096**
Revenues	**8,708**	**7,183**	**177**	**825**	**16,893**
Net profit	**2,949**	**1,102**	**23**	**106**	**4,180**

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

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

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

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

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

The maturity profile of this account is presented below.

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

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

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

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:

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

The maturity profile of this account is presented below.

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

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

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

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

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

16.1 Foreign Banks

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

16.2 Senior Notes

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

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

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

17. SUBORDINATED NOTES PAYABLE

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

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

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

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

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

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

18. OTHER LIABILITIES

Other liabilities consist of the following:

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

The liability for unredeemed reward points amounting to P2,488 and P2,803 as of December 31, 2015 and 2014, respectively, presented as part of Accrued expenses 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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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)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 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)

		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, 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	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	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	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

	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**
December 31, 2013					
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 5^{th} 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		Profit allocated to NCI		Accumulated NCI	
	2014	2013	**2014**	2013	**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		Parent Bank	
	2014	2013	**2014**	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	2013	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:

		2014		2013	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	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:

	Note	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Teresita T. Sy
Chairman of the Board

Nestor V. Tan
President

Pedro M. Florescio III
Treasurer

Signed this 27th day of February 2016

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We find ways

SUBSCRIBED and SWORN to me before this MAR 0 1 2016 day of March, 2016 affiants exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number	Date & Place Issued
1. Teresita T. Sy	Passport No. – EB9786664 CTC No. – 00352716	12.10.2013/Manila 02.23.2015/Manila
2. Nestor V. Tan	Passport No. – EB7352142 CTC No. – 04948705	02.11.2013/Manila 03.02.2015/Makati
3. Pedro M. Florescio III	Passport No. – EC3295228 CTC No. – 05101962	01.28.2015/NCR South 01.21.2016/Makati

WITNESS BY HAND AND SEAL on the day first above-mentioned at Makati City.

Doc. No. 149
Page No. 30
Book No. II
Series of 2016

Atty. MARICHELLE Q. GERARDO
Notary Public for Makati City, Philippines
until 31 December 2016
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Roll No. 45121
IBP No. 0981269, 1/5/2015, Quezon City
PTR No. 4754556, 1/6/2015, Makati City
MCLE Compliance No. IV-0009958, 12/4/2012

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