If you are in any doubt about this Offering Circular, you should consult representatives of the Selling Agents such as a sales professional or bank manager, or a professional accountant or other professional adviser.

OFFERING CIRCULAR 18 August 2017

BDO UNIBANK, INC.

(A BANKING CORPORATION ORGANIZED AND EXISTING UNDER PHILIPPINE LAWS)

₱11.8 BILLION 3.625% LONG TERM NEGOTIABLE CERTIFICATES OF DEPOSIT DUE 2023

BDO Unibank, Inc., (the "Bank") is offering ₱11.8 Billion worth of Long Term Negotiable Certificates of Deposit due 2023 (the "BDO Series 2017-1 CDs") pursuant to the authority granted by the Bangko Sentral ng Pilipinas ("BSP") to the Bank on 23 June 2017 and General Banking Law of 2000 (Republic Act No. 8791), Section 233.9 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 824, Series of 2014; Circualr No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585 Series of 2007, and other related circulars and issuances as may be amended from time to tim. The issuance of the BDO Series 2017-1 CDs is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The BDO Series 2017-1 CDs will bear interest at the rate of 3.625% per annum from and including 18 August 2017 to but excluding 18 February 2023 and interest will be payable quarterly in arrears at the end of each Interest Period on 18 November, 18 February, 18 May and 18 August, beginning on 18 November 2017. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid. *See Terms and Conditions of the BDO Series 2017-1 CDs.* Unless previously redeemed, the BDO Series 2017-1 CDs will be redeemed at their principal amount on Maturity Date which is on 18 February 2023. Subject to the satisfaction of certain regulatory approval requirements, the Bank may redeem the BDO Series 2017-1 CDs in whole and not only in part on the Pre-Termination Date at the face value of the BDO Series 2017-1 CDs, plus accrued and unpaid interest as of but excluding the Pre-Termination Date. *See Terms and Conditions of the BDO Series 2017-1 CDs – Pre-termination Date.*

The BDO Series 2017-1 CDs constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable according to Terms and Conditions of the BDO Series 2017-1 CDs, and shall at all times rank pari passu and ratably without any preference or priority amongst themselves, and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The BDO Series 2017-1 CDs will be issued in scripless form in denominations of ₱100,000 and in integral multiples of ₱50,000 thereafter and will be registered and lodged with the Registrar through the LTNCD Registry in the name of the CD Holders. The BDO Series 2017-1 CDs will be represented by a Master Long Term Negotiable Certificate of Time Deposit deposited with the Registrar. The electronic registry book of the Registrar (the "LTNCD Registry") shall serve as the best evidence of ownership with respect to the BDO Series 2017-1 CDs up to the level of the beneficial CD Holders. However, a written advice will be issued by the Registrar to the CD Holders to confirm the registration of BDO Series 2017-1 CDs in their name in the LTNCD Registry including the amount and summary terms Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in and subject to PDIC's applicable rules, regulations, terms and conditions, as may be amended from time to time. *See Terms and Conditions of the BDO Series 2017-1 CDs.*

The BDO Series 2017-1 CDs will be listed in the trading platform of the Philippine Dealing & Exchange Corp. ("PDEx") for secondary market trading pursuant to the BSP rules. Upon listing of the BDO Series 2017-1 CDs in the PDEx, investors shall course their secondary market trades through the trading participants of the PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. For the avoidance of doubt, the minimum denomination of ₱100,000 for the BDO Series 2017-1 CDs as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining CD Holder of the BDO Series 2017-1 CDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The Bank has a Baa2 rating for its long-term local currency bank deposits from Moody's Investor Services. The Bank also has an Issuer/Debt Rating (long-term) of BBB- from Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. The BDO Series 2017-1 CDs are not rated.

JOINT LEAD ARRANGERS AND SELLING AGENTS

Deutsche Bank ING

OTHER SELLING AGENTS

BDO BDO Private Bank

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The date of this Offering Circular is 18 August 2017.

This Offering Circular (or "Offering Circular") has been prepared solely for the information of persons to whom it is transmitted by Deutsche Bank AG, Manila Branch ("***DB***") and ING Bank N.V., Manila Branch ("***ING***") as Joint Lead Arrangers and Selling Agents (the "Joint Lead Arrangers"), or the Bank and BDO Private Bank in their capacity as Selling Agent, with respect to the BDO Series 2017-1 CDs to be issued by the Bank. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

The Bank confirms that this Offering Circular contains all information with respect to the Bank and its subsidiaries (collectively, the "Group") and the BDO Series 2017-1 CDs which is material in the context of the issue and offering of the BDO Series 2017-1 CDs. The Bank also confirms that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the BDO Series 2017-1 CDs, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect, and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, the prospective CD Holders must rely on its own examination of the Bank and the terms of the offering of the BDO Series 2017-1 CDs, including the merits and risks involved. By receiving this Offering Circular, the prospective CD Holder acknowledges that (i) it has not relied on the Joint Lead Arrangers or any of the Selling Agents or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the BDO Series 2017-1 CDs other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank, the Joint Lead Arrangers or the Selling Agents.

No representation or warranty, express or implied, is made by the Joint Lead Arrangers and the Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular. The Joint Lead Arrangers and the Selling Agents assume no responsibility for the accuracy of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of the BDO Series 2017-1 CDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof. The Joint Lead Arrangers and the Selling Agents expressly do not undertake to update the contents of this Offering Circular.

None of the Bank, the Joint Lead Arrangers or the Selling Agents or any of their respective affiliates or representatives is making any representation to any CD Holder regarding the legality of an investment by such CD Holder under applicable laws. In addition, the CD Holder should not construe the contents of this Offering Circular as legal, business or tax advice. The CD Holder should be aware that it may be required to bear the financial risks of an investment in the BDO Series 2017-1 CDs for an indefinite period. The CD Holder should consult with its own advisers as to the legal, tax, business, financial and related aspects of a purchase of the BDO Series 2017-1 CDs.

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of the Bank, the Joint Lead Arrangers or Selling Agents or any of their respective affiliates or representatives to purchase any of the BDO Series 2017-1 CDs, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

Each CD Holder must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such BDO Series 2017-1 CDs or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such BDO Series 2017-1 CDs under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and the Bank, the Joint Lead Arrangers or the Selling Agents shall have no responsibility therefor.

Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references herein to the "Government" are references to the Government of the Philippines. All references herein to "United States" or "U.S." are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to "U.S. dollars" and "US$" are to the lawful currency of the United States of America and references herein to "Pesos" and "₱" are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. Each prospective Noteholder is recommended to read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes (the "Financial Statements") and "Investment Considerations".

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, rural banking, stock brokerage, 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 March 31, 2017, 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, ₱2.0 trillion and ₱2.3 trillion as of December 31, 2013, 2014, 2015 and 2016 respectively, and ₱2.4 trillion as of March 31, 2017 while total capital funds stood at ₱164.4 billion, ₱179.7 billion, ₱199.6 billion, ₱217.5 billion and ₱282.4 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-size 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 recent mergers and acquisitions.

As of March 31, 2017, the Bank had a network of 1,125 operating domestic branches, including 125 One Network Bank ("ONB") branches, and one foreign branch (in Hong Kong) with 92 more domestic branch licenses for deployment. Its network includes 25 overseas remittance and representative offices (including one full service branch in Hong Kong), and 3,749 automated teller machines ("ATMs") (including 229 ONB ATMs) and 343 Cash Accept Machines ("CAMs") as of March 31, 2017. As of March 31, 2017, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.53% of the Bank's issued share capital.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of P59.8 billion.. As of March 31, 2017, the Bank had a market capitalization on the Philippine Stock Exchange ("PSE") of approximately ₱513.6 billion. The Bank's consolidated Common Equity Tier 1 ("CET1") ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 14.0%, 14.2%, and 15.6%, respectively, as of March 31, 2017.

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 March 31, 2017, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,125 domestic branches (including 125 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 private banking, investment banking, remittances and credit cards. The

Bank believes that its scale of operations and brand recognition support the continued growth and diversification of its business, network and product mix.

Diversified business model providing full-service operations

The Bank is a full-service universal bank offering a host of industry-leading banking products and services to serve the retail and corporate markets, including lending products (such as loan products tailored to corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution the Bank's operating income. For the year ended December 31, 2016, the Bank's other operating income, mainly comprising of non-interest income, increased by 30.3% to ₱41.6 billion from ₱31.9 billion in the year ended December 31, 2015. For the three months ended March 31, 2017, the Bank's other operating income increased 52.4% to ₱11.4 billion from ₱7.5 billion for the three months ended March 31, 2016. 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 March 31, 2017, the Bank's network consists of 1,125 domestic branches (including 125 ONB branches), 3,749 ATMs (including 229 ONB ATMs), 343 CAMs, and one full service branch in Hong Kong. As of March 31, 2017, as the Bank also has 25 remittance and representative offices across Asia, North America and Europe. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base despite facing certain branch expansion restrictions from the BSP. Its low cost CASA deposit base (comprising demand and savings deposits) increased from ₱1.137 trillion as of December 31, 2015 to ₱1.382 trillion as of December 31, 2016, representing a growth of 21.5%. As of March 31, 2017, its low cost CASA deposit base further grew to ₱1.404 trillion. As of March 31, 2017, December 31, 2016, 2015 and 2014, 72.8%, 72.6%, 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 efficiency of service delivery.

Strong and experienced management team

The Bank believes it has assembled a strong management team with significant experience and proven track records in Philippine banking. The Bank's senior executive officers (comprising officers from the senior vice-president level and above who head business or support groups) have an average of over 20 years of experience in the banking and financial services sectors, primarily with certain of the Philippines' largest and most well-known banks. In addition, the Bank's executives and officers have a broad range of experience in their respective areas of banking and finance, 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 more 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, bancassuranace, 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 funding 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

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.

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.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised gross proceeds of ₱60.0 billion. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (SCB) to develop a business cooperation envisioned to benefit the Japanese bank's SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB's diversified SME clients.

INVESTMENT CONSIDERATIONS

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

- Considerations relating to the Philippines
- Considerations relating to the Philippine Banking Industry
- Considerations relating to the Bank and its Business
- Considerations relating to the BDO Series 2017-1 CDs

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 BDO Series 2017-1 CDs

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.

THE OFFER

DB and ING, in their capacity as Joint Lead Arrangers, have agreed with the Bank, subject to the satisfaction of certain conditions, to distribute and sell the BDO Series 2017-1 CDs at the Issue Price (defined below) in consideration for certain fees and expenses. The Joint Lead Arrangers will offer the BDO Series 2017-1 CDs to selected prospective CD Holders.

The distribution and sale of the BDO Series 2017-1 CDs to prospective CD Holders shall be undertaken by the Joint Lead Arrangers and the Selling Agents for the issue. Nothing herein shall limit the right of the Joint Lead Arrangers to purchase the BDO Series 2017-1 CDs for its own account. The Joint Lead Arrangers may, from time to time, engage in transactions with and perform services for the Bank or its shareholders or affiliates in the ordinary course of its business, for which customary compensation has been received. It is expected that the Joint Lead Arrangers and their affiliates will continue to enter into such transactions with and perform such services to the Bank or its shareholders or its affiliates in the near future.

The following is a general summary of the terms of the BDO Series 2017-1 CDs. This summary is derived from and should be read in conjunction with the full text of the Terms and Conditions of the BDO Series 2017-1 CDs (the “Terms and Conditions”). The Terms and Conditions shall prevail in the event of any inconsistency with the terms set out in this section.

Issuer	BDO Unibank, Inc. (the “Bank”)
CDs Offered	₱11.8 billion Fixed Rate Long-Term Negotiable Certificates of Time Deposit
Denomination	The BDO 2017-1 CDs will be issued in minimum denominations of One Hundred Thousand Pesos (P100,000) and in integral multiples of Fifty Thousand Pesos (P50,000) thereafter.
Issue Price	One Hundred Percent (100.0%) of the nominal principal amount of each BDO 2017-1 CDs.
Interest Rate	3.625% per annum
Issue Date	The date when the BDO Series 2017-1 CDs is issued by the Bank to CD Holders, as the Bank may determine, which shall be such number of Banking Days following the end of the Offer Period as may be determined by the Bank, or such other date as the Bank and the Joint Lead Arrangers may agree in writing.
Maturity Date	Five and ½ (5.5) years from the Issue Date at which date the BDO Series 2017-1 CDs will be redeemed at their Maturity Value; Provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day (without adjustment to interest).
Maturity Value	The Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date.
Offer Period	The period when the BDO Series 2017-1 CDs shall be offered for sale by the Bank to the public, through the Bank’s branches and the Selling Agents to prospective CD Holders, commencing at 12:00 p.m. and ending at 5:00 p.m. on such days or dates as may be determined by the Bank and the Joint Lead Arrangers.
Form	The BDO Series 2017-1 CDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the BDO Series 2017-1 CDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The BDO Series 2017-1 CDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the BDO Series 2017-1 CDs.
Interest Accrual	The BDO Series 2017-1 CDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised).

Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the BDO Series 2017-1 CDs for each Interest Period shall be calculated by the Registrar on a 30/360-day year basis.

The determination by the Registrar of the amount of interest payable (in the absence of manifest error) is final and binding upon all parties.

Interest Periods

In respect of the BDO Series 2017-1 CDs, the period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1st) day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.

Interest Payment Date

in respect of the BDO Series 2017-1 CDs, the last day of an Interest Period when payment for Interest in respect of the BDO Series 2017-1 CDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the BDO Series 2017-1 Master CD.

Principal Repayment

Unless the BDO Series 2017-1 CDs are pre-terminated by the Bank on Pre-termination Date (*See Condition 13*), the BDO Series 2017-1 CDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the BDO Series 2017-1 CDs.

Non-Preterminability

Presentation of the BDO Series 2017-1 CDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless otherwise expressly provided in the Terms and Conditions. LTNCD Holders may, however, transfer or assign their LTNCDs to a prospective LTNCD Holder who is not Prohibited Holder. Such transfer or assignment shall not be considered a pre-termination. (*See Terms and Conditions of the BDO Series 2017-CDs for the definition of the term "Prohibited CD Holder"*)

Status and PDIC Insurance

The BDO Series 2017-1 CDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the BDO Series 2017-1 CDs will at all times rank pari passu without any preference among themselves. The BDO Series 2017-1 CDs shall be at least pari passu with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the BDO Series 2017-1 CDs, except obligations mandatorily preferred by law.

The BDO Series 2017-1 CDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000) per depositor.

PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.

In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:

details or information establishing the right and capacity or the relationship of the entity with the individual/s; or

details or information establishing the validity or effectivity of the deposit transfer; or

copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

Taxation

If payments of principal and/or interest in respect of the BDO Series 2017-1 CDs shall be subject to deductions and withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25.In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the BDO Series 2017-1 CDs (if any), based on the holding period of such BDO Series 2017-1 CDs and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it.

Documentary stamp tax for the primary issue of the BDO Series 2017-1 CDs and the documentation, if any, shall be for the Bank’s account.

As issuer of the BDO Series 2017-1 CDs, the withholding of final tax on the interest due on the BDO Series 2017-1 CDs is the responsibility of the Bank pursuant to Section 57 of the National Internal Revenue Code, as amended, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank shall abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank’s listed issues.

Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of: (i) gross receipts tax under Section 121 of the National Internal Revenue Code, as amended; and (ii) taxes on the overall income of any CD Holder, whether or not subject to withholding.

SEC Registration

The BDO Series 2017-1 CDs have not been and will not be registered with the SEC. Since the BDO Series 2017-1 CDs qualify as exempt securities

	under Section 9.1 (e) of the Philippine Securities Regulation Code, the BDO Series 2017-1 CDs may be sold and offered for sale or distribution in the Philippines without registration. The BDO Series 2017-1 CDs shall be listed by the Bank in the PDEx.
Governing Law	Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
Governing Regulations	The General Banking Law of 2000 (Republic Act No. 8791), Section X233.9 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 834, Series of 2014; Circular No. M-2014-023, Series of 2014; Circular No. 824, Series of 2014; Circular No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585, Series of 2007, and other related circulars and issuances, as may be amended from time to time.
Investment Considerations	*See "Investment Considerations*" for a discussion of certain factors to be considered in connection with an investment in the BDO Series 2017-1 CDs.
Joint Lead Arrangers	Deutsche Bank AG, Manila Branch ("DB") and ING Bank N.V., Manila Branch ("ING").
Selling Agents	DB, ING, BDO and BDO Private Bank and includes their respective successor entities, or the selling agent(s) in respect of the BDO CDs appointed from time to time under the Placement Agreement .
Registrar and Paying Agent	Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the BDO Series 2017-1 CDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the Governing Regulations.
Business Day	Any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are not required or authorized to close for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days.

USE OF PROCEEDS

The BDO Series 2017-1 CDs will be used to diversify the maturity profile of funding sources and to support the Bank’s business expansion plans.

SELECTED FINANCIAL INFORMATION

Summary of Consolidated Financial Information

The following tables present selected consolidated financial information of the Bank and its subsidiaries and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular. The selected financial information presented below as of and for the years ended December 31, 2014, 2015 and 2016 were derived from the consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards ("PFRS"), and audited by Punongbayan & Araullo (P&A) in accordance with PSA. The selected financial information as of March 31, 2017 and for the three month periods ended March 31, 2016 and 2017 were derived from the unaudited interim consolidated financial statements of the Bank and its subsidiaries, 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 three months ended March 31,	
	2014	2015	2016	2016	2017
	(audited) (in ₱ millions)			(unaudited) (in ₱ millions)	
Interest income on					
Loans and other receivables	53,907	63,836	73,171	17,621	19,866
Trading and investment securities	7,333	7,477	8,142	1,840	2,199
Due from BSP and other banks	2,065	795	696	134	533
Others	278	19	28	5	6
	63,583	72,127	82,037	19,600	22,604
Interest expense on					
Deposit liabilities	10,441	12,526	13,624	3,355	3,432
s payable and other borrowings	1,917	2,640	2,789	773	729
	12,358	15,166	16,413	4,128	4,161
Net interest income	51,225	56,961	65,624	15,472	18,443
Impairment losses	5,114	3,000	3,815	827	1,423
Net interest income after impairment losses	46,111	53,961	61,809	14,645	17,020
Other operating income					
Trading gain - net	5,868	4,740	1,860	992	619
Service charges and fees	15,386	16,453	19,056	4,024	5,978
Miscellaneous	8,233	10,746	20,704	2,464	4,804
	29,487	31,939	41,620	7,480	11,401
Other operating expenses					
Employee compensation and benefits	18,081	21,120	24,698	4,499	5,109
Occupancy	5,704	6,675	7,661	1,824	2,088
Taxes and licenses	5,780	6,683	7,224	1,718	1,994
Other operating expenses	18,965	20,666	30,556	6,962	11,670
	48,530	55,144	70,139	15,003	20,861
Income before pre-acquisition income	27,068	30,756	33,290	7,123	7,560
Pre-acquisition income	-	-	391	-	-
Income before tax	27,068	30,756	32,899	7,123	7,560
Income tax expense	4,240	5,701	6,797	1,638	1,722
Net income after tax	22,828	25,055	26,102	5,485	5,838

Consolidated Statements of Financial Position

	As of December 31,			As of March 31,	
	2014	**2015**	**2016**	**2016**	**2017**
		(audited)		**(unaudited)**	
		(in ₱ millions)		**(in ₱ millions)**	
Cash and other cash items	41,342	42,729	40,909	34,478	31,551
Due from the Bangko Sentral ng Pilipinas	269,542	271,808	318,002	265,209	378,530
Due from other banks	45,621	24,837	41,794	36,052	40,149
Trading and investment securities	221,510	225,759	269,042	228,537	298,433
Loans and other receivables — net	1,212,930	1,382,752	1,573,924	1,422,106	1,566,193
Premises, furniture, fixtures and equipment – net	21,093	24,995	26,912	25,431	27,018
Investment properties	13,861	14,633	15,188	14,813	15,330
Equity investments – net	5,332	5,702	4,410	6,100	4,542
Deferred tax assets – net	6,033	6,079	6,334	6,014	6,305
Other resources — net	26,385	31,960	28,443	29,244	27,819
Total resources	1,863,649	2,031,254	2,324,958	2,067,984	2,395,870
Deposit liabilities					
Demand	85,807	104,066	114,284	115,174	117,130
Savings	872,976	1,033,652	1,267,983	1,082,187	1,287,110
Time	533,499	526,135	522,937	506,940	523,866
Total deposit liabilities	1,492,282	1,663,853	1,905,204	1,704,301	1,928,106
Bills payable	100,361	97,543	100,556	92,135	81,749
Subordinated notes payable	10,030	10,030	10,030	10,030	10,030
Insurance contract liabilities	-	-	20,548	-	22,574
Other liabilities	81,307	60,215	71,085	57,443	71,050
Total liabilities	1,683,980	1,831,641	2,107,423	1,863,909	2,113,509
Equity	179,669	199,613	217,535	204,075	282,361
Total liabilities and equity	1,863,649	2,031,254	2,324,958	2,067,984	2,395,870

Selected Financial Ratios

(in percentages except earnings per share)	For the year ended December 31,			For the three months ended March 31,	
	2014	2015	2016	2016	2017
Return on assets[(1)]	1.3	1.3	1.2	1.1	1.0
Return on shareholders' equity[(2)]	13.4	13.4	12.5	10.9	9.3
Return on average common equity[(3)]	13.6	13.6	12.6	11.0	9.4
Net interest margin[(4)]	3.2	3.2	3.2	3.2	3.3
Cost-income ratio[(5)]	60.1	62.0	65.4	65.4	69.9
Loans to deposits[(6)]	71.2	75.3	76.4	73.3	78.6
Common equity tier 1 ratio [(7)]	12.2	11.4	10.7	11.4	14.0
Tier 1 capital adequacy ratio[(8)]	12.6	11.7	11.0	11.8	14.2
Total capital adequacy ratio[(9)]	14.4	13.3	12.4	13.4	15.6
Total non-performing loans to total loans -- excluding interbank loans[(10)]	1.3	1.2	1.3	1.3	1.3
Total non-performing loans to total loans -- including interbank loans[(11)]	1.3	1.2	1.2	1.2	1.3
Allowances for probable loan losses to total loans[(12)]	2.5	2.0	1.8	2.0	1.8
Allowances for probable loan losses to total non-performing loans[(13)]	188.4	166.1	139.3	162.6	137.9
Earnings per share (₱)[(14)]	6.27	6.84	7.06	1.35	1.31

(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) *Common equity tier 1 capital divided by total risk-weighted assets.*
(8) *Tier 1 capital divided by total risk-weighted assets.*
(9) *Total capital divided by total risk-weighted assets.*
(10) *Total non-performing loans divided by total loans excluding interbank loans.*
(11) *Total non-performing loans divided by total loans including interbank loans.*
(12) *Total allowance for probable loan losses divided by total loans.*
(13) *Total allowance for probable loan losses divided by total non-performing loans.*
(14) *Net income divided by total number of outstanding shares.*

CAPITALIZATION AND INDEBTEDNESS

The following table sets out the unaudited consolidated long-term debt and capitalization of the Bank as of March 31, 2017, and as adjusted to give effect to the issuance of the LTNCDs. This table should be read in conjunction with the Bank's unaudited consolidated financial statements as of and for the period ended March 31, 2017 included in this Offering Circular.

	As at 31 March 2017	
	Actual	**As adjusted**
	(in ₱ millions)	
Short-Term Liabilities		
Deposit Liabilities	1,789,572	1,789,572
Bills Payable	32,678	32,678
Other Liabilities	22,916	22,916
Total Short-Term Liabilities	**1,845,166**	**1,845,166**
Long-Term Liabilities – net of current portion		
Deposit Liabilities	138,534	150,334
Bills Payable and Subordinated Notes Payable	59,101	59,101
Other Long-Term Liabilities	70,708	70,708
Total Long-Term Liabilities – net of current portion	**268,343**	**280,143**
Capital Funds		
Issued Share Capital		
Preferred Stock	5,150	5,150
Common Stock	43,672	43,672
Additional Paid-In Capital	122,823	122,823
Surplus Reserves	3,046	3,046
Other Reserves	12	12
Surplus Free	113,323	113,323
Net Unrealized Fair Value Gain (Loss) on AFS Securities	(2,882)	(2,882)
Accumulated Actuarial Gains (Losses)	(4,440)	(4,440)
Revaluation Increment	1,008	1,008
Accumulated Translation Adjustment	(35)	(35)
Accumulated Share in Other Comprehensive Income(Loss) of Associates	(4)	(4)
Non-controlling interest	688	688
Total Capital Funds	**282,361**	**282,361**
Total Capitalization and Indebtedness [(1)(2)]	**2,395,870**	**2,407,670**

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

(2) *Changes in the Bank's contingent accounts as of March 31, 2017 are discussed in Note 27.3 to the unaudited consolidated financial statements of the Bank as at March 31, 2017, included elsewhere in this Offering Circular.*

INVESTMENT CONSIDERATIONS

An investment in the Notes involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the Notes. The Bank's business, financial condition and results of operations could materially and adversely be affected by any of these investment considerations. The market price of the Notes could decline due to any one of these risks, and all or part of an investment in the Notes could be lost. The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to be exhaustive. Prospective Noteholders are encouraged to make their own independent legal, financial, and business examination of the Bank and the market. Neither the Bank nor any of the Joint Lead Arrangers makes any warranty or representation on the marketability or price on any investment in the Notes.

CONSIDERATIONS 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 of the Peso and limited 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 not dropped to historic low levels yet, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the further 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, 2016, according to BSP data, the Peso has depreciated by 5.6% to ₱49.813 per US$1 from ₱47.166 per US$1 at the end of 2015. As of June 30, 2017, the Peso was at ₱50.466 against the U.S. dollar.

Substantially all of the Bank'ss 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, its 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.

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

The sovereign credit ratings of the Government directly affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies – Fitch (BBB-), Standard and Poor's (BBB-) and Moodys (Baa3). In 2014, S&P and Moody's upgraded their ratings a notch above investment grade to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2017. Meanwhile, Fitch has kept the country's credit rating at the minimum investment grade of "BBB-" in the last four years, with the last review held in March 2017. These ratings are 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 agency will not downgrade the credit ratings of the Philippines in the future. Any of such downgrades could have an adverse effect on liquidity in the Philippine financial markets, the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

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 political and military 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. Seventeen (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 endorsed 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 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, violent crimes and geo-political/territorial tensions could undermine the country'ss stability and adversely affect 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. Meanwhile, Sekkingstad and Flor were released from captivity separately by the Abu Sayyaf in September and June 2016. 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.

On May 23, 2017, a deadly firefight in Marawi, Lanao del Sur, erupted between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law ("ML") in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22 2017, both House of Congress voted to extend Martial Law until the end of 2017. President Duterte has asked for the extension as the rebellion could not be completely quashed over the initial 60-day period of ML. Some sectors however are wary of the prolonged extension of ML, citing its negative impact on business, tourism, the country's image (as this relates to the current administration's ability to quickly restore peace and order in Marawi), and investor confidence. The ongoing clashes have resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents.

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 June 22, 2017, 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.

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.

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, floods, 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 the Philippine securities laws and the 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. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code (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 require significantly 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. Recently, the Philippine Coast Guard has begun patrolling Benham Rise, which is part of Philippine territory, following reports of Chinese presence in the area. The United Nations Commission on the Limits of the Continental Shelf confirmed in 2012 that Benham Rise is part of the Philippines' continental shelf. 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

CONSIDERATIONS 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, United Overseas Bank, First Commercial Bank of Taiwan, Hua Nan Commercial Bank, Ltd. and Chang Hwa Commercial 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 March 31, 2017, according to data from the BSP, there were a total of 42 domestic and foreign 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 one hundred per cent (100%) of the voting stock of an existing bank; b) investment in up to one hundred per cent (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 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 1.9%, 1.7%, 1.9% and 1.5% as of the years ended December 31, 2014, 2015, 2016 and March 31, 2017, 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 March 31, 2017, past due ratios in the Philippine universal and commercial banking system was at 1.7%, 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 139.0% as of March 31, 2017, 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, 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 has yet to release the official guidelines on the NSFR.

Moreover, the Basel Committee on Banking Supervision ("BCBS") came out with an Exposure Draft on "Basel IV" outlining the following proposals among others: shifting to the standardized approach to credit, counterparty credit and operational risk; the use of core risk drivers for calculating risk-weights for bank exposures; setting regulatory capital floors for banks' risk weighted assets ("RWAs"). The BSP has not set any timetable for implementation for Philippine banks, thus the impact remains uncertain.

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, foreign financial institutions ("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.

CONSIDERATIONS RELATING TO THE BANK AND ITS SUBSIDIARIES

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

Over the past three years, the Bank has experienced substantial growth (organically and through acquisitions), with its loan portfolio expanding by 19.5%, 17.4% and 15.8% in the years ended 31 December 2014, 2015 and 2016, respectively and 21.1% for the three months ended March 31, 2017 (compared to March 31, 2016). The Bank's total assets reached ₽1.0 trillion as at 31 December 2010, the first local bank to achieve this milestone, resulting in the Bank being ranked as the largest domestic bank in the Philippines in terms of total resources, gross customer loans, total deposits, capital and total trust funds under management. Total assets thereafter stood at ₱1.9 trillion, ₱2.0 trillion and ₱2.3 trillion, as of December 31, 2014, 2015 and 2016, respectively and ₱2.4 trillion as of March 31, 2017. The Bank is also the industry leader in terms of investment banking, trust banking, private banking, remittances, leasing and finance and credit cards in 2016. However, the Bank's strategy, which includes growing and diversifying its loan portfolio and expanding its range of products and services to better cater to the needs of its customers, is also dependent on a number of external factors.

In particular, the Bank may not be successful in relation to the introduction of new services and products. It is entering into new lines of business 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 existing banks. Furthermore, there may not be sufficient demand for such services and products, and they may not generate sufficient revenues relative to the costs associated with developing and introducing such services and products. Even if the Bank were able to introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

The Bank also faces a number of operational risks in executing its growth strategy and in particular the Bank's potential acquisition plans. The Bank will have to train its employees (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 March 31, 2017, the Bank's total exposure to borrowers (or gross loans and receivables to customers) was ₱1.544 trillion. The ten largest borrower groups in aggregate accounted for 22.4% of the Bank's total exposure and its ten largest individual borrowers in aggregate accounted for 14.3% 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 March 31, 2017, the Bank's single borrower limit was ₱66.7 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 March 31, 2017 accounted for 2.6% of the Bank's total exposure and 14.3% of the Bank's total equity. The largest borrower group as of March 31, 2017 accounted for 3.3% of the Bank's total exposure and for 17.9% 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.

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 expired on December 28, 2016 and was not extended, but the Bank believes that the expiration of the additional 25% SBL is not an issue given the Bank's expanded capital base following the successful completion of its ₱60 billion (USD1.2 billion) stock rights offer ("SRO") in January 2017, as well as the preference by the current administration for hybrid/Official Development Assistance ("ODA") financing that may temper loans under the PPP. However, there can be no guarantee 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 March 31, 2017.

Rank	Industry[1]	Amount (₱ millions)	Per cent. of Total Exposure to Borrowers
1	Wholesale and retail trade, repair of motor vehicles	201,768	13.1
2	Real estate activities	199,695	12.9
3	Manufacturing	196,086	12.7
4	Financial and Insurance Activities	162,444	10.5
5	Electricity, gas, steam and air conditioning supply	156,058	10.1
	Total	916,051	59.3

[1] Industry classifications are in accordance with the Philippine Standard Industrial Classification Code

The Bank's exposure to these five sectors, totaling ₱916.1 billion, constituted 59.3% 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 non-performing loans 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, negatively affected by the level of its non-performing loans. For the years ended 31 December 2014, 2015 and 2016 and the three months ended March 31, 2017, the Bank's provisioning expense for impairment of assets amounted to ₱5.1 billion, ₱3.0 billion, ₱3.8 billion, and ₱1.4 billion, respectively, which represented 10.0%, 5.3%. 5.8% and 7.7%, respectively, of net interest income in those periods and 0.5%, 0.2%, 0.3% and 0.4%, respectively, of gross loans in those periods. A slowdown in global growth momentum may adversely affect the ability of the Bank's borrowers to finance their indebtedness and, as a result, the Bank may experience an increase in non-performing loans and loan loss provisions.

The Bank's consolidated NPLs increased by 18.9% to ₱18.8 billion as of December 31, 2016 (representing 1.3% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱he Bank's consolidated NPLs increased by 18.9% to ₱18.8 billion as of December 31 2017 (representing 1.3% of the Bank's total gross customer loans net of interbank loans as of that date) from ₱16.1 billion as of March 31, 2016. As of December 31, 2014, 2015, 2016 and March 31, 2017, the Bank's NPL coverage ratio was 188.4%, 166.1%, 139.3% and 137.9%, 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 non-performing loans would have a material adverse effect on its financial condition, capital adequacy and results of operations. *See "Assets and Liabilities – Non-Performing Loans (NPL) and ROPA"*.

The Bank believes that it has set aside adequate provisions with an NPL coverage ratio of 137.9% as of March 31, 2017 compared to the industry's average NPL coverage ratio of 114.9% (139.0% for universal and commercial banks only), as of March 31, 2017 and reflected current valuations as regards its investment portfolio. While the financial markets have since 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 non-performing loans require significant subjective determinations which may increase the variation of application of such policies.

BSP regulations require that Philippine banks classify non-performing loans 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 currently 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 non-performing loans, or any deterioration in the overall credit quality of the Bank´s loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

In January 2017, the BSP amended the regulatory definitions of past due accounts, restructured loans and non-performing loans, as well as revisions of other related provisions under BSP Circular 941. Among others, the said Circular cites the conditions under which an account will be classified as NPL (i.e. meeting any of the following: considered impaired under existing accounting standards; classified as doubtful or loss; in litigation; full repayment of principal and interest is unlikely without foreclosure of collateral, if any; 91-days past due; and restructured). Banks are required to make the necessary revisions in their management information and reporting systems relating to past due and NPLs to allow them to comply with the requirements of the Circular effective January 1, 2018.

Certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. Further, in preparation for IFRS 9, the Bank currently estimates provisioning based on a loan loss methodology. The IFRS 9 Expected Credit Loss ("ECL") poses risk of variability of provisions due to the subjective nature of assumptions used and complexity of data requirements for the model forecasts as well as potentially unforeseen changes in macroeconomic and industry conditions.

While the Bank believes, based on its initial assessment, that the new NPL definition and 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 may result in the Bank recognizing significantly higher provisions for loan loss in the future.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan 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 March 31, 2017, the Bank's secured loans represented 28.9% of the Bank's total gross customer loans, and 47.1% 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 ("FRSP") 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 further 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 is highly cyclical, and property prices in general have been volatile. Property prices collapsed following the Asian financial crisis but recovered until the global financial crisis in 2008 restrained demand. However, property demand and prices have since recovered on favorable macroeconomic conditions, increasing home ownership in the Philippines and strong demand from families of OFWs as well as workers from the Information and Communication Technology ("ICT") and Business Process Outsourcing ("BPO") industries. Property prices are affected by a number of factors, including the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments. Historically, the Bank has low home loan default rates compared to industry standards.

In 2016 and for the three months ended March 31, 2017, the Bank sold ₱2.2 billion and ₱0.5 billion worth of acquired assets and intends to continue with its strategy of gradually reducing ROPA holdings. As a result, the Bank recorded net ROPA of ₱7.8 billion as of December 31, 2016 and ₱7.8 billion as of March 31, 2017, representing 0.3% and 0.3%, respectively, of the Bank's total resources. In prior years, the Bank had ₱9.0 billion, ₱8.8 billion and ₱7.3 billion as of December 31, 2013, 2014 and 2015, respectively, representing 0.5%, 0.5% and 0.4% 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, and 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 further 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, or without informing the account holder concerned. The enactment of these measures resulted in the Philippines being upgraded by the FATF to the anti-money laundering compliance "gray list", signifying sufficient progress in the country's campaign against money laundering and terrorist financing.

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 controversy involving the US$81 Million heist of the Bangladesh central bank account last year prompted Philippine legislators and agencies, such as the Department of Finance and the BSP, to propose the further amendment of the AMLA (RA 9160). On 15 March 2017, BSP issued Circular 950 Series of 2017 containing the amendments approved by the Monetary Board to the Anti-Money Laundering-Combating the Financing of Terrorism (AML/CFT) regulations. The changes reflected the amendments to the Anti-Money Laundering Act (AMLA) that took effect last January as well as the recommendations from Paris-based Financial Action Task Force (FATF). It added the requirements for group-wide anti-money laundering compliance function and monitoring systems are incorporated for a holistic management and prevention of money laundering and terrorist financing risks. The amendments feature refinements in the conduct of customer due diligence, more pragmatic definition of "official document" and the use of other reliable, independent source documents, data or information for customer identification and verification. The new rules likewise introduced the concept of a "restricted account" to cater to targeted unbanked sector, wherein minimal customer information are required subject to certain conditions, such as constraints in terms of activity. The new rules recognize and allow the use of information and communication technology in the conduct of customer identification subject to implementation of appropriate measures to manage attendant risks.

On July 14, 2017, President Rodrigo Duterte signed into law Republic Act No. 10927 that amends the Anti-Money Laundering Act of 2001 by expanding the coverage of the AMLA to include casinos (these encompass internet and ship-based operations). RA 10927 also puts any single casino cash transaction of more than ₱5 million, or its equivalent in other currencies, as a "covered transaction" and thus must be reported to the AMLC. Further the Court of Appeals ("CA") can now issue a 20-day freeze order against any monetary instrument or property linked to unlawful activities as those defined and enumerated under RA 9160.

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 incident involving a large Philippine universal bank in an international money laundering case. Any deficiencies or lapses, whether minor or material, in such systems could result in sanctions against Philippine banks, including the Bank, and other financial institutions or persons included in the web of transfers and currency conversions, which could adversely affect its reputation, business and operations or cause it to be in breach of its contractual obligations.

In April 2012, the BSP implemented Circular No. 753 (“Circular 753”), which provided for the unification of the statutory/legal and liquidity reserve requirements applicable to banks, the exclusion of vault cash as eligible forms of reserve requirement compliance, and the reduction in the unified reserve requirement ratios (e.g., from 21% to 18% for universal commercial banks). Circular 753 also terminated the interest on reserve deposits placed with the BSP. 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. 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.

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 likewise 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 by on November 30, 2013. In addition, the BSP intermittently reduced SDA rates by a total of 150 basis points in 2013 to 2.0%. Further, the participation of Unit Investment Trust Funds in SDA facilities was gradually wound down, i.e., 50% in December 2016, 30% in March 2017 and fully terminated in June 2017 in line with the BSP’s adoption of the interest rate corridor (“IRC”). Under the IRC, SDA windows were replaced by the overnight deposit facility (“ODF”), with the interest rate for the ODF facility set by the Monetary Board at 2.5%, unchanged from the previous SDA rate. Since the adoption of the IRC, the Monetary Board has maintained the interest rate on the BSPn 2013 to 2.0%.ess to the SDA facility. The 2.5%, unchanged from the previo interest rate on the overnight lending facility was also kept the same at 3.5%.

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guidelines applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used. Banks with large holdings of peso-denominated securities in their portfolio are seen most affected by the new BSP ruling as they will have to absorb any losses from the change in valuation.

The Bank signed up on 25 April 2014 ahead of the 1 July 2014 deadline to participate in FATCA (“Foreign Account Tax Compliance Act”), 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 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 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, subject to certain conditions. Furthermore, 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.

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 BIRfor documentary stamp tax upon their issue of paskbooks for higher interest rate deposIn 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 Bankrtfolios.omply with existing and new rules and regulations applicable to it, it could incurconditions 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 March 31, 2017, the Bank's total Philippine government securities balance was ₱196.4 billion representing 64.9% of the Bank's investment securities portfolio.

During periods of declining interest rates, the Bank is able to generate relatively higher earnings from its trading and investment activities. Other debt securities, non-debt securities and derivative financial assets amounted to ₱76.6 billion, ₱23.3 billion and ₱6.5 billion, respectively, as of March 31, 2017, representing 25.3%, 7.7% and 2.1%, respectively, of the Bank's trading and investment securities portfolio.

The Bank's income from these activities is subject to fluctuations based on changes in interest rate direction, foreign currency exchange rate volatility and stock market changes. For example, an increase in interest rates may impact on the value of the Bank's investments in fixed income securities. However, the Bank has undertaken measures to mitigate the negative effects on the portfolio by shortening the duration of its holdings to avert potential losses that may arise once interest rates rise. The Bank is likewise less exposed to risk given that fixed income portfolio comprises approximately 10% of total assets. In addition, the Bank has shifted to higher rated securities in the mix of its credit exposures to minimize the risk of credit rating downgrades. However, the impact of the forthcoming implementation of IFRS9 on the Bankmounted to s (comprised primarily ofhe opportunities to realize trading gains in the fixed income books due to the more restricted conditions for disposals. IFRS 9 may also introduce expected credit loss provisions for the fixed income portfolio that were not previously required under the IAS accounting framework. 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 ₱5.9 billion, ₱4.7 billion and ₱1.9 billion, for the years ended December

31, 2014, 2015 and 2016, respectively, representing 7.3%, 5.3% and 1.7%of total operating income for such periods, respectively. For the three months ended March 31, 2017, the Bank recorded trading gains of ₱0.6 billion, representing 2.1% of total operating income for the same period. 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, 2014, 2015 and 2016 and March 31, 2017, and the varying levels of provisions it has made in respect of non-performing loans, 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 substantially all of its qualified employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions. As of December 31, 2016, the fair value of the retirement plan assets of the Bank was ₱21.9 billion and the present value of the obligation was at ₱21.1 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit asset of ₱0.7 billion for 2016.

The principal actuarial assumptions used by the Bank to determine the cost of retirement benefits include a discount rate of 5.5% and a salary increase of 9.0% 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.nd GPLAC were renamed BDO Life Assurance Holdings Corp. ("BDO Life"), and BDO Life Assurance Comp in the Philippines. The acquisition, which includes SB Cards acquisition of SB Cards Corp.nd GPLAC were renamed BDO Life Assurance Holdings Corp. ("BDO LifWhile 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 potential 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.

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

The Bank is effectively controlled by the SM Group, which is comprised of entities affiliated with SM Investments Corporation ("SMIC") and its controlling shareholders. As of March 31, 2017, SMIC directly owned approximately 40.09% 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 54.53% of the Bank's common shares as of March 31, 2017, 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 March 31, 2017, the Bank's loans to the SM Group amounted to ₱17.7 billion, or 1.1% 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 March 31, 2017, the Bank had ₱416.9 billion of foreign currency assets and ₱414.0 billion of foreign currency liabilities in the 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 effct 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, 2016, the total requirement applicable to the Bank was ₱186.0 billion comprising a ₱111.6 billion minimum requirement to the agricultural sector and a ₱74.4 billion requirement to agrarian reform beneficiaries. As of December 31, 2016, the Bank lent a total of ₱66.1 billion to the agricultural sector and ₱0.3 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 ₱541.9 million in 2016. 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 June 2017, Moody's reaffirmed the Bank's Counterparty Risk Assessment of Baa1(cr)/P-2(cr) given by Moody's in October 2016 and 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 February 21, 2017, 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, further increases in the U.S. Federal Reserve's interest rate, following rate hikes in 2016 and 2017 have 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.

Global economic conditions have improved beyond economists' expectations, prompting them to upgrade their global growth outlook in 2017. However, challenges and risks remain, lending a subdued tone to the recovery. The broad ramifications of "Brexit" to the UK, the EU and the global economy, following the UK's decision to leave the EU, have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. Likewise putting a downside risk to the global outlook are the impact of US President Donald Trump's policies affecting trade, migration, and offshore operations, as well as the ongoing geopolitical crises that include among others, tensions over North Korea's nuclear program, Syrian civil war, Qatar diplomatic crisis, and terrorist acts committed by ISIS.

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

CONSIDERATIONS RELATING TO THE BDO SERIES 2017-1 CDS

Liquidity of the BDO Series 2017-1 CDs

The Bank intends to list the BDO Series 2017-1 CDs on the PDEx. As such, secondary trading of the BDO Series 2017-1 CDs, including a limited form of market making thereon, would be conducted on the PDEx (through its trading participants) in accordance with the PDEx and BSP rules. The liquidity of the BDO Series 2017-1 CDs will thus depend in part upon the activity of the PDEx trading participants in developing a trading market for the BDO Series 2017-1 CDs and no assurance can be given that an active trading market for the BDO Series 2017-1 CDs will develop or will be maintained throughout the life of the BDO Series 2017-1 CDs.

Furthermore, no assurance can be given on the ability of the CD Holders to sell their BDO Series 2017-1 CDs or the price at which CD Holders may be able to sell their BDO Series 2017-1 CDs. The prevailing price of the BDO Series 2017-1 CDs, like that of any other fixed rate negotiable instrument, may be higher or lower than the original purchase price.

Subject to the "Events of Default" in the Terms and Conditions, the BDO Series 2017-1 CDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an Event of Default, none of the CD Holders may accelerate the BDO Series 2017-1 CDs on behalf of other CD Holders, and a CD Holder may only collect from the Bank to the extent of his holdings in the BDO Series 2017-1 CDs. However, the Bank may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding BDO Series 2017-1 CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

Transfers of the BDO Series 2017-1 CDs

The Bank intends to list the BDO Series 2017-1 CDs in PDEx for secondary market trading. Upon listing of the BDO Series 2017-1 CDs with PDEx, investors shall course their secondary market trades through the trading participats of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

Further, these rules and guidelines cover minimum trading lots and record dates. The secondary trading of BDO Series 2017-1 CDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other any providers necessary for the completion of such trandes. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph).

The BDO Series 2017-1 CDs may not be issued or transferred to (1) the Bank; (2) the subsidiaries or affiliates of the Bank; (3) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank; (4) non-resident aliens not engaged in trade or business in the Philippines; (5) non-resident foreign corporations; and (6) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time (FATCA), which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA.. The Registry is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions.

As with other securities, the BDO Series 2017-1 CDs may trade at prices higher or lower than the initial offering price due to a number of factors, including but not limited to, the prevailing interest rates, the Bank's operations and financial performance, the overall market performance of debt securities, among others. It is possible that a selling CD Holder would receive sales proceeds lower than the initial investment should the CD Holder decide to sell the BDO Series 2017-1 CDs prior to maturity.

Taxation of the BDO Series 2017-1 CDs

The National Internal Revenue Code of Philippines (the "Tax Code") provides that interest income from deposit substitutes earned by individual citizens of the Philippines, resident aliens and non-resident aliens engaged in trade or business in the Philippines is subject to 20% final withholding tax. The Tax Code and recent BIR issuances, however, also provide for an exemption from the final withholding tax on interest income from long-term deposits or investments earned by the aforementioned individuals where the following conditions concur:

- The investment must be in the form of savings, common or individual trust fund, deposit substitutes, investment management accounts or other forms which must be prescribed by the BSP;
- The investment must be issued by banks only (not by non-bank financial intermediaries and finance companies); and must issued to individual citizens (residents or non-residents), resident aliens, or non-resident aliens engaged in trade or business within the Philippines;
- The investment has a maturity of not less than 5 years;
- The investment must be in denominations of ₱10,000.00 or other denominations as may be prescribed by the BSP;
- The investment should not be pre-terminated by the holder thereof before the fifth year;

- The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank; and
- Except those specifically exempted by law or regulation, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

Generally, then, interest income from the BDO Series 2017-1 CDs, issued by the Bank to individual citizens, resident individuals, and non-resident individuals engaged in trade or business in the Philippines, is exempt from income tax. However, should such individual holder of the BDO Series 2017-1 CDs pre-terminate the deposit or investment before the 5^{th} year, a final tax shall be imposed on the entire income already earned by the CD Holder based on the holding period thereof:

Four years to less than five years – 5%
Three years to less than four years – 12%
Less than three years – 20%

BIR Revenue Regulations No. 14-2012 clarifies that transfers or assignments of the BDO Series 2017-1 CDs by a CD Holder described above to another CD Holder is construed as pre-termination solely for tax purposes; and therefore a final tax shall be due on the interest income already earned by the transferor CD Holder. There is therefore no assurance that the secondary trading or transfer of the BDO Series 2017-1 CDs may not be affected given this tax treatment.

Transfers subject to BSP rules and transaction related fees

Transactions on the BDO Series 2017-1 CDs will be subject to the relevant rules of the exchange, including guidelines on minimum trading lots and record dates, all in accordance with guidelines for holding and trading of the BDO Series 2017-1 CDs as may be prescribed by the BSP. Such rules and regulations may include maintaining the minimum denomination for the BDO Series 2017-1 CDs as prescribed by the BSP at all times such that no negotiation or secondary trading may be allowed if the result is that a remaining CD Holder of the BDO Series 2017-1 CDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The trading rules and regulations of the BSP or the exchange or PDEx or its trading participants, and other providers necessary for the completion of such trades may affect the liquidity of the BDO Series 2017-1 CDs such that a holder of BDO Series 2017-1 CDs or purchaser of the BDO Series 2017-1 CDs may not be able to readily access the secondary market if the intended transaction size of the BDO Series 2017-1 CDs will be less than the minimum denomination as prescribed or approved by the BSP.

Additionally, any trading or negotiations of the BDO Series 2017-1 CDs may be subject to fees and charges of the exchange or PDEx or its trading participants, and other providers necessary for the completion of such trades.

The BDO Series 2017-1 CDs may not be a suitable investment for all investors.

Each potential investor in the BDO Series 2017-1 CDs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the BDO Series 2017-1 CDs, the merits and risks of investing in the BDO Series 2017-1 CDs and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the BDO Series 2017-1 CDs and the impact the BDO Series 2017-1 CDs will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the BDO Series 2017-1 CDs, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the BDO Series 2017-1 CDs and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase BDO Series 2017-1 CDs as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the BDO Series 2017-1 CDs unless it has the expertise (either alone or with a financial adviser) to evaluate how the BDO Series 2017-1 CDs will perform under changing conditions, the resulting effects on the value of the BDO Series 2017-1 CDs and the impact this investment will have on the potential investor's overall investment portfolio.

PDIC Insurance Coverage of the BDO Series 2017-1 CDs

The BDO Series 2017-1 CDs, which are considered bank deposits, are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

- Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (P500,000.00) per depositor.
- PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.
- In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.
- In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:
    i. details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
    ii. details or information establishing the validity or effectivity of the deposit transfer; or
    iii. copy of the board resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.
- In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.
- PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer orthe right and capacity of the transferee or his relationship to the transferor.

TERMS AND CONDITIONS OF THE BDO SERIES 2017-1 CDS

1	**Definitions**	In these Terms and Conditions and the Contracts (as hereinafter defined):
	"Adverse Effect"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the BDO CDs and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
	"Anti-Money Laundering Laws of the Philippines"	means Republic Act No. 9160, as amended by Republic Act No. 9194 and 10167, and BSP Circular Nos. 251, 253, 279, 527, 564, 608 and 612, and all other amendatory and implementing laws, regulations, jurisprudence, notices or orders of any Philippine governmental body relating thereto;
	"Auditors"	means Punongbayan & Araullo;
	"Bank"	means BDO Unibank, Inc., the issuer of the BDO CDs;
	"BDO Series 2017-1 Master CD"	means the master form representing the BDO Series 2017-1 CDs setting forth the Terms and Conditions;
	"BDO Series 2017-1 CDs"	means long-term negotiable certificates of time deposit in the amount of up to ₱ 11.8 billion to be issued by the Bank under these Terms and Conditions and pursuant to the authority granted by the BSP to the Bank on 29 June 2017 and the Governing Regulations, represented by a BDO Series 2017-1 Master CD;
	"BIR"	means the Philippine Bureau of Internal Revenue;
	"BSP"	means the Bangko Sentral ng Pilipinas;
	"Business Day"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are not required or authorized to close for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
	"Cash Settlement Account"	means an account designated by a CD Holder with a Cash Settlement Bank into which shall be credited the interests, principal and other payments on the BDO Series 2017-1 CDs;
	"Cash Settlement Bank"	means a bank licensed and authorized under the laws of the Philippines and designated by a CD Holder as the bank with which such CD Holder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;
	"CD Holder(s)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the BDO Series 2017-1 CDs;
	"Closed Period"	shall have the meaning set forth in Condition 17;
	"Contracts"	means: (a) the Placement Agreement in the agreed form dated on or about 31 July 2017 between the Bank, the Joint Lead Arrangers and the Selling Agents; (b) the Registry and Paying Agency Agreement in the agreed form dated on or about 31 July 2017 between the Bank and the Registrar and Paying Agent; (c) the BDO Series 2017-1 Master CD; (d) these Terms and Conditions; and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including

amendments or accessions thereto;

"Event of Default"	means an event specified as such under Condition 21 hereof;
"Governing Regulations"	General Banking Law of 2000 (Republic Act No. 8791), Section X233.9 of the Manual of Regulations for Banks, Circular No. 304, Series of 2001 of the BSP as amended by Circular No. 877, Series of 2015; Circular No. 890, Series of 2015; Circular No. M-2014-034, Series of 2014; Circular No. 834, Series of 2014; Circular No. M-2014-023, Series of 2014; Circular No. 824, Series of 2014; Circular No. 822, Series of 2013; Circular No. 810, Series of 2013; Circular No. 674, Series of 2009; Circular No. 585, Series of 2007, and other related circulars and issuances, as may be amended from time to time;
"Group"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"Insolvency Default"	means the acts of bankruptcy referred to under subparagraph (h) of Condition 21, including but not limited to the following: (a) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (b) appointment of a trustee or receiver of all or a substantial portion of the Bank's properties; (c) making of an assignment for the benefit of the Bank's creditors of all or substantially all of its properties; (d) admission in writing of the Bank's inability to pay its debts; or (e) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its properties or assets;
"Interest"	means for any Interest Period, the interest payable on the BDO Series 2017-1 CDs Due 2023 at such rate as set out in these Terms and Conditions;
"Interest Payment Date"	means, in respect of the BDO Series 2017-1 CDs, the last day of an Interest Period when payment for Interest in respect of the BDO Series 2017-1 CDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the BDO Series 2017-1 Master CD;
"Interest Period"	means, in respect of the BDO Series 2017-1 CDs, the period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1st) day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date;

"Interest Rate"	means 3.625%, payable to the CD Holder for the period from and including the relevant Issue Date up to but excluding (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised);
"Issue Date"	means the date when the BDO Series 2017-1 CDs is issued by the Bank to CD Holders, as the Bank may determine, which shall be such number of Banking Days following the end of the Offer Period as may be determined by the Bank, or such other date as the Bank and the Joint Lead Arrangers may agree in writing;
"Issue Price"	means One Hundred Percent (100.0%) of the nominal principal amount of each BDO CD;
"Joint Lead Arrangers"	means Deutsche Bank AG, Manila Branch ("DB") and ING Bank N.V., Manila Branch ("ING");
"Maturity Date"	means 5.5 years from the Issue Date at which date the BDO Series 2017-1 CDs will be redeemed at their Maturity Value; Provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day;
"Maturity Value"	means the Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date;
"Offer Period"	means the period when the BDO Series 2017-1 CDs shall be offered for sale by the Bank to the public, through the Bank's branches and the Selling Agents to prospective CD Holders, commencing at 12:00 p.m. and ending at 5:00 p.m. on such days or dates as may be determined by the Bank and the Joint Lead Arrangers;
"Offering Circular"	means the Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final forms in respect of the BDO Series 2017-1 CDs (the final form being dated as of the Issue Date), and all amendments, supplements and addenda thereto;
"Payment Date"	means each date on which payment for interest and/or principal in respect of the BDO Series 2017-1 CDs become due. The date on which a payment in respect of the BDO Series 2017-1 CDs becomes due means the first date on which the CD Holders could claim the interest or principal payment;
"PDEx"	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;
"PDIC"	means Philippine Deposit Insurance Corporation;
"Placement Agreement"	means the Placement Agreement in the agreed form dated on or about 31 July 2017 among the Bank, Joint Lead Arrangers and Selling Agents, as may be amended or supplemented from time to time;
"Pre-termination Amount"	means the face value of a the BDO Series 2017-1 CDs, subject of a Pre-termination Option, plus accrued interest covering the accrued and unpaid interest as of but excluding the Pre-termination Date of the BDO Series 2017-1 CDs.
"Pre-termination Date"	means, in respect of a series of BDO Series 2017-1 CDs, the Interest Payment Date on which the Bank may exercise its Pre-termination Option for such series pursuant to

	Condition 13 of these Terms and Conditions;
"Pre-termination Option"	means the option of the Bank to redeem the BDO Series 2017-1 CDs as a whole, but not in part, on any Interest Payment Date on the basis of events specified in, and in accordance with, Condition 13 of these Terms and Conditions;
"Pricing Date"	Any day within the Offer Period and prior to the Issue Date, as may be determined by the Issuer in consultation with the Joint Lead Arrangers;
"Prohibited CD Holder(s)"	means persons and entities which are prohibited from purchasing and/or holding any BDO Series 2017-1 CDs of the Bank pursuant to the Governing Regulations, specifically: (1) the Bank; and (2) the subsidiaries and affiliates of the Bank; (3) wholly or majority-owned or controlled entities of the subsidiaries and affiliates of the Bank; (4) non-resident aliens not engaged in trade or business in the Philippines; (5) non-resident foreign corporations; and (6) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time (FATCA), which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA. A "subsidiary" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An "affiliate" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;
"PSE"	means the Philippine Stock Exchange, Inc.;
"Purchase Advice"	means the written advice sent by the Selling Agents (in case of the primary issuance of the BDO Series 2017-1 CDs) or, upon listing of the BDO Series 2017-1 CDs in PDEx, a PDEx Trading Participant (in case of secondary transfers of the BDO Series 2017-1 CDs), to a CD Holder confirming the acceptance of its offer to purchase BDO Series 2017-1 CDs and consequent ownership thereof and stating the details, including the tax status, and summary terms and conditions, of the issue, sale or assignment of BDO Series 2017-1 CDs to such CD Holder;
"Registrar" or "Paying Agent"	means Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the BDO Series 2017-1 CDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the Governing

		Regulations;
	"Registry"	means the electronic registry book of the Registrar containing the official information on the CD Holders and the amount of BDO Series 2017-1 CDs they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
	"Registry Confirmation"	means the written advice sent by the Registrar to the CD Holders, confirming the registration in the name of such CD Holder of the specified amount of BDO Series 2017-1 CDs issued to or purchased by a CD Holder, in the Registry, and setting forth the declarations required by the BSP;
	"SEC"	means the Philippine Securities and Exchange Commission and its successor agency/ies;
	"Selling Agents"	means Deutsche Bank AG, Manila, Philippines Branch; ING Bank N.V., Manila Branch; BDO Unibank, Inc.; and BDO Private Bank, Inc.; and includes their respective successor entities, or the selling agent(s) in respect of the BDO Series 2017-1 CDs appointed from time to time under the Issue Arrangement and Placement Agreement or an agreement supplemental to it;
	"Tax Exempt/Treaty Documents"	shall have the meaning set forth in Condition 25; and
	"Terms and Conditions"	mean these Terms and Conditions of the BDO Series 2017-1 CDs as may be amended from time to time.
2	**Purpose of Issuance**	The issue will be used to diversify the maturity profile of funding sources and to support the Bank's business expansion plans.
3	**Form**	The BDO Series 2017-1 CDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the BDO Series 2017-1 CDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The BDO Series 2017-1 CDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the BDO Series 2017-1 CDs.
4	**Denomination**	The BDO Series 2017-1 CDs will be in minimum denominations of One Hundred Thousand Pesos (P100,000) and in integral multiples of Fifty Thousand Pesos (P50,000) thereafter, and will likewise be transferable in the secondary market in such minimum denominations as may be in accordance with the requirements of PDEx under the PDEx Rules.
5	**Title**	Legal title to the BDO Series 2017-1 CDs shall be evidenced by the Registry, which shall be the official registry and best evidence of ownership and all other information regarding ownership of the BDO Series 2017-1 CDs. Following receipt from the Selling Agents or PDEX Trading Participant of a Purchase Advice evidencing the purchase of BDO Series 2017-1 CDs by the CD Holders, a Registry Confirmation containing a unique transaction reference number will be issued by the Registrar in favor of the said CD Holders in accordance with the Governing Regulations and the Registry and Paying Agency Agreement to evidence the registration of such BDO Series 2017-1 CDs in their names in the Registry.

6	**SEC Registration and Listing**	The BDO Series 2017-1 CDs have not been and will not be registered with the SEC. Since the BDO Series 2017-1 CDs qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the BDO Series 2017-1 CDs may be sold and offered for sale or distribution in the Philippines without registration. The BDO Series 2017-1 CDs shall be listed by the Bank in the PDEx.
7	**Eligible CD Holders**	In general, the BDO Series 2017-1 CDs may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited CD Holders.
8	**Qualification Determination**	Each Selling Agent (in the case of initial issuances of the BDO Series 2017-1 CDs) or the PDEX Trading Participant (in the case of transfers or assignments of the BDO Series 2017-1 CDs) shall verify the identity and relevant details of each proposed CD Holder and ascertain that said proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Proposed CD Holders shall be required to submit any and all information reasonably required by the Selling Agents and/or PDEX Trading Participant in order for the said Selling Agents and/or PDEX Trading Participant, as the case may be, to be able to determine that such proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Any question on such determination shall be referred to the Bank.
9	**Interest Accrual and Payment**	The BDO Series 2017-1 CDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised). Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the BDO Series 2017-1 CDs for each Interest Period shall be calculated by the Registrar on a 30/360-day year basis. The determination by the Registrar of the amount of interest payable (in the absence of manifest error) is final and binding upon all parties.
10	**Payment**	The Paying Agent shall pay, or cause to be paid on behalf of the Bank, on or before 12:00 p.m. on the Payment Date the amounts due in respect of the BDO Series 2017-1 CDs through a direct credit of the proper amounts, net of taxes and fees (if any) to the Cash Settlement Banks of the CD Holders, for onward remittance to the Cash Settlement Accounts of the CD Holders with the Cash Settlement Banks.
11	**Principal Repayment**	Unless the BDO Series 2017-1 CDs are pre-terminated by the Bank on Pre-termination Date *(See Condition 13)*, the BDO Series 2017-1 CDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the BDO Series 2017-1 CDs.

12	**Pretermination by the CD Holder**	Presentation of the BDO Series 2017-1 CDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under "Events of Default" in these Terms and Conditions. CD Holders may, however, transfer or assign their BDO Series 2017-1 CDs to another holder who is not a Prohibited CD Holder. Such transfer or assignment shall not be considered a pre-termination, subject to Condition 14.
13	**Pre-termination by the Bank**	Subject to Governing Regulations, the Bank shall have the option (but not the obligation) to pre-terminate the BDO Series 2017-1 CDs as a whole, but not in part, prior to the Maturity Date and on any Interest Payment Date at the Pre-termination Amount, for any cause as may be allowed under the Governing Regulations, including, without limitation if or when: (i) there shall occur at any time during the term of the BDO Series 2017-1 CDs any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) at any time during the term of the BDO Series 2017-1 CDs, long term negotiable certificates of deposit issuances become subject to additional or increased reserves required by the BSP, other than the seven percent (7%) statutory regular reserves required in BSP Circular No.832, Series of 2014. The Bank may pre-terminate all and not only part of the BDO Series 2017-1 CDs as permitted under this Condition 13 on any Interest Payment Date prior to the Maturity Date by giving notice in writing of its intention to the CD Holders (with copy to the Registrar and Paying Agent) which notice shall state the Interest Payment Date on which such BDO Series 2017-1 CDs are to be redeemed, the redemption price and the manner in which redemption will be effected in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks. Such notice shall be given not more than sixty (60) calendar days nor less than thirty (30) calendar days before the Interest Payment Date, shall be irrevocable and shall oblige the Bank to redeem all of the BDO Series 2017-1 CDs on the Pre-termination Date at their Pre-termination Amount. Any incremental tax that may be due on the interest income already earned under the BDO Series 2017-1 CDs prior to or as a result of the exercise by the Bank of its Pre-termination Option shall be for the account of the Bank. In addition, the Bank shall re-compute its reserve positions retroactively based on the applicable reserve rate(s) for regular time deposits during the period between the Issue Date and the Pre-termination Date.
14	**Secondary Trading**	The BDO Series 2017-1 CDs are freely transferable across tax categories, if and when so allowed under PDEx rules, conventions, and guidelines. All transfers or assignments of the BDO Series 2017-1 CDs shall be coursed through a PDEx Trading Participant, subject to the PDEx Rules.

		As a condition precedent for any transfer or assignment of the BDO Series 2017-1 CDs, the transferee CD Holder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Purchase Advice; (ii) the Registry Confirmations of both the transferor and the transferee (if any); (iii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iv) the Investor Registration Form; (v) Tax Exempt/Treaty Documents, if applicable; (vi) written consent of the transferee CD Holder to be bound by the terms of the BDO Series 2017-1 CDs and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vii) such other documents as may be reasonably required by the Registrar. A service charge shall be imposed for any registration of transfer or assignment of the BDO Series 2017-1 CDs, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or assignment of the BDO Series 2017-1 CDs, each for the account of the CD Holder requesting the registration of transfer or assignment of the BDO Series 2017-1 CDs. Subject to Condition 17, payment by the relevant CD Holder of the proper fees, if any, to PDEx and/or the Registrar, a transfer or assignment of BDO Series 2017-1 CDs may generally be done at any time. In case of a transfer or assignment deemed by the Bank as a pre-termination, solely for withholding tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the BDO Series 2017-1 CDs (if any), based on the holding period of such BDO Series 2017-1 CDs by the transferor CD Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the BDO Series 2017-1 CDs has a remaining maturity of at least five years. "Transfers or assignments deemed by the Bank as pre-termination for withholding tax purposes" means any transfer or assignment which: (a) is made by a CD Holder who is a citizen, resident individual, nonresident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the Governing Regulations, is not considered a pre-termination of the BDO Series 2017-1 CDs; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the BDO Series 2017-1 CDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.
15	**Transferability**	All transfers and assignment of, as well as change in title to, the BDO Series 2017-1 CDs shall be recorded in the Registry. Settlement in respect of such transfer and assignment of, or change of title to, the BDO Series 2017-1 CDs, including settlement of applicable taxes (subject to Condition 24), if any, arising from such transfers, assignments or change in title, shall be for the account of the transferee and/or transferor CD Holder. Transfers or assignments of the BDO Series 2017-1 CDs made in violation of the restrictions on transfer under these

		Terms and Conditions shall be null and void and shall not be registered by the Registrar.
16	**Place of Registry and Compliance with Registry Rules**	The Registry shall be kept at the specified office of the Registrar. To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the CD Holders) shall be observed and complied in the implementation of the functions of the Registrar, including, without limit, transfers of the BDO Series 2017-1 CDs.
17	**Closing of Registry**	The Registrar shall not register any transfer or assignment of the BDO Series 2017-1 CDs for a period of two (2) Business Days preceding the due date for any payment of interest on the BDO Series 2017-1 CDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the BDO Series 2017-1 CDs ("Closed Period"), or register the transfer or assignment of any BDO Series 2017-1 CDs previously called for redemption or pre-termination. The Registrar will treat the person in whose name the BDO Series 2017-1 CDs is registered immediately before the closed period as the owner of such BDO Series 2017-1 CDs for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
18	**Status and PDIC Insurance**	The BDO Series 2017-1 CDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the BDO Series 2017-1 CDs will at all times rank pari passu without any preference among themselves. The BDO Series 2017-1 CDs shall be at least pari passu with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the BDO Series 2017-1 CDs, except obligations mandatorily preferred by law. The BDO Series 2017-1 CDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following: Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (P500,000) per depositor. PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein. In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor. In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up

		will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following: details or information establishing the right and capacity or the relationship of the entity with the individual/s; or details or information establishing the validity or effectivity of the deposit transfer; or copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws. In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor. PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.
19	**Representations and Warranties**	The Bank hereby represents and warrants to the CD Holders, as follows: (a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it; (b) except as otherwise disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect; (c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the BDO Series 2017-1 CDs and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the BDO Series 2017-1 CDs; (d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts; (e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally

binding obligations of the Bank;

(f) the BDO Series 2017-1 CDs have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Registry and Paying Agency Agreement, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the BDO Series 2017-1 CDs constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank pari passu and ratably without any preference among themselves and at least pari passu with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the BDO Series 2017-1 CDs, the carrying out of the other transactions contemplated by the BDO Series 2017-1 CDs and the Contracts or the compliance by the Bank with the terms of the BDO Series 2017-1 CDs and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank has obtained the approval of the BSP to issue the BDO Series 2017-1 CDs, which approval has not been revoked, qualified, or restricted, and shall fully, timely, and unconditionally comply with all other terms and conditions imposed by the BSP regarding the issuance of the BDO Series 2017-1 CDs while any portion of the BDO Series 2017-1 CDs remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the Governing Regulations to issue, maintain, service, pay out, redeem, and cancel the BDO Series 2017-1 CDs, including the prohibitions of Section X233.9 (h) of the Manual of Regulations for Banks, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue of the BDO Series 2017-1 CDs, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank’s subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) (i) the Offering Circular contains all information with respect to the Group and to the BDO Series 2017-1 CDs which is material in the context of the issue and offering of the BDO Series 2017-1 CDs (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the BDO Series

2017-1 CDs, is necessary to enable potential CD Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the BDO Series 2017-1 CDs); (ii) the statements contained in the Offering Circular relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the BDO Series 2017-1 CDs the omission of which would, in the context of the issue and offering of the BDO Series 2017-1 CDs, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "Critical Accounting Policies"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the BDO Series 2017-1 CDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorisations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavourable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the BDO Series 2017-1 CDs, or which are otherwise material in the context of the issue of the BDO Series 2017-1 CDs and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects; and

(y) The Bank is Solvent. As used in this paragraph, the term "Solvent" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realise upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy.

(z) The approval of PDEx for the listing of the BDO Series 2017-1 CDs when issued will be in full force and effect unless applicable laws no longer require listing of long-term negotiable certificates of time deposit with an exchange.

These representations and warranties are true and correct

		as of the Issue Date and shall be deemed repeated with reference to the facts and circumstances then existing on each Interest Payment Date.
20	**Covenants**	The Bank hereby covenants and agrees that during the term of the BDO Series 2017-1 CDs and until payment in full and performance of all its obligations under the BDO Series 2017-1 CDs, it shall act as follows and perform the following obligations: (a) The Bank shall pay all amounts due under the BDO Series 2017-1 CDs at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the BDO Series 2017-1 CDs; (b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the BDO Series 2017-1 CDs until Maturity Date or full payment of the claims under the BDO Series 2017-1 CDs, whichever is later, and accordingly, shall secure all necessary corporate and government approvals, and perform all necessary acts, for the renewal and extension of its corporate term, on or prior to the expiry thereof on 20 December 2016; (c) It shall**,** as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a CD Holder, furnish to such requesting CD Holder such updates and information as may be reasonably requested by a CD Holder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the BDO Series 2017-1 CDs and the Contracts; (d) It shall, when so requested in writing, provide any and all information reasonably needed by PDEX and Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the Governing Regulations, and the Contracts; *Provided,* that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering; (e) The Bank shall promptly advise the CD Holders through the Registrar and Paying Agent of: (i) any request by any government agency for any information related to the BDO Series 2017-1 CDs; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the BDO Series 2017-1 CDs or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the BDO Series 2017-1 CDs at the earliest time possible;

(f) The Bank shall ensure that any documents related to the BDO Series 2017-1 CDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a CD Holder execute and deliver to such CD Holders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a CD Holder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the CD Holders through the Registrar and Paying Agent, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the BDO Series 2017-1 CDs and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the BDO Series 2017-1 CDs in accordance with the purpose of issuance provided in the Offering Circular; and

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the BDO Series 2017-1 CDs, as provided in the Registry and Paying Agency Agreement.

(n) It shall ensure that the BDO Series 2017-1 CDs are listed with PDEx unless applicable laws no longer require listing of long-term negotiable certificates of time deposit with an exchange.

These covenants of the Bank shall survive the issuance of the BDO Series 2017-1 CDs and shall be performed fully and faithfully by the Bank at all times while the BDO Series 2017-1 CDs or any portion thereof remain outstanding.

21	**Events of Default**	The Bank shall be considered in default under the BDO Series 2017-1 CDs in case any of the following events shall

occur:

(a) The Bank fails to pay any principal and/or interest due on the BDO Series 2017-1 CDs;

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the BDO Series 2017-1 CDs is untrue, incorrect, or misleading in any material respect;

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from notice to the Bank;

(d) The Bank violates any term or condition of any contract, bond, note, debenture, or similar security executed by the Bank with any other bank, financial institution, or other person, corporation, or entity in respect of borrowed moneys in an aggregate amount exceeding Five Hundred Million Pesos (₱500,000,000) or its equivalent or, in general, the Bank violates any contract, law, or regulation which: (i) if remediable, is not remedied by the Bank within ten (10) calendar days from such failure; (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) will adversely and materially affect the performance by the Bank of its obligations under the BDO Series 2017-1 CDs and pay any amount outstanding on the BDO Series 2017-1 CDs;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the BDO Series 2017-1 CDs expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;

(f) It becomes unlawful for the Bank to perform any of its material obligations under the BDO Series 2017-1 CDs;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "**Insolvency Default**");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in

		excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement; (j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and (k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure, and, provided that, in any such event, there is no Adverse Effect.
22	**Effects of Events of Default**	If any one or more of the Events of Default (other than an Insolvency Default, the effects of which are set forth in Condition 23 hereof) shall have occurred and be continuing after any applicable cure period shall have lapsed, any CD Holder by written notice to the Bank and the Registrar and the Paying Agent stating the Event of Default relied upon, may declare the Bank in default in respect of the BDO Series 2017-1 CDs held by such CD Holder and require the principal amount of the BDO Series 2017-1 CDs held by such CD Holder, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such CD Holder or the other holders of the BDO Series 2017-1 CDs may be entitled. In case of an Event of Default under Condition 21 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month thereon, which shall accrue from the date the amounts payable under these Terms and Conditions became due until the same is fully paid. Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: first, to the pro-rata payment to the Registrar and Paying Agent of the costs, expenses, fees, and other charges of collection incurred by it without negligence or bad faith; to the payment to the Registrar and Paying Agent of its fees, and other outstanding charges due to it; second, to the pro-rata payment of all outstanding interest owing to the CD Holders, including any default interest as specified in this Condition 22, in the order of maturity of such interest; and third, to the pro-rata payment of the whole amount then due and unpaid on the BDO Series 2017-1 CDs for principal owing to the CD Holders. The Registrar and Paying Agent shall promptly notify the Bank and the CD Holders of any notice received by it on the occurrence of any Event of Default as set forth in these Terms and Conditions according to a process agreed upon

		by the Registrar and Paying Agent and the Bank attached as Schedule 14 to the Registry and Paying Agency Agreement; Provided, that in case such notice (other than a notice of default under this Condition 22) is received by the Registrar and Paying Agent from a CD Holder, the Registrar and Paying Agent, prior to notifying the remaining CD Holders, shall first advise the Bank of such notice and provide the Bank with an opportunity to refute such claim to the satisfaction of the party alleging the Event of Default within three (3) Business Days from its receipt of the advice from the Registrar and Paying Agent, failing which the Registrar and Paying Agent shall immediately notify the remaining CD Holders; Provided, further, that in case such notice consists of a notice of default under this Condition 22, the Registrar and Paying Agent shall immediately, and in no case more than one (1) Business Day from its receipt of such notice, notify the remaining CD Holders.
23	**Remedy for Non-Payment In An Insolvency Default**	The payment of principal on the BDO Series 2017-1 CDs may be accelerated only in the event of insolvency of the Bank. Recovery of amounts owing in respect of the BDO Series 2017-1 CDs against the Bank is available to any CD Holder only through the institution of proceedings for the insolvency of the Bank.
24	**Taxation**	If payments of principal and/or interest in respect of the BDO Series 2017-1 CDs shall be subject to deductions and withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25. In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the BDO Series 2017-1 CDs (if any), based on the holding period of such BDO Series 2017-1 CDs and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Documentary stamp tax for the primary issue of the BDO Series 2017-1 CDs and the documentation, if any, shall be for the Bank's account. As issuer of the BDO Series 2017-1 CDs, the withholding of final tax on the interest due on the BDO Series 2017-1 CDs is the responsibility of the Bank pursuant to Section 57 of the National Internal Revenue Code, as amended, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank shall abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and

		to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues. Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of: (i) gross receipts tax under Section 121 of the National Internal Revenue Code, as amended; and (ii) taxes on the overall income of any CD Holder, whether or not subject to withholding.
25	**Claim of Tax-Exempt Status**	CD Holders claiming exemption from any applicable tax shall be required to submit documentary proof of its tax-exempt status ("Tax Exempt/Treaty Documents") to the Registrar (who shall forthwith provide copies to the Bank upon request) upon its purchase of the BDO Series 2017-1 CDs (and on each anniversary thereafter), such as, but not limited to: (a) A current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR; (b) A duly notarized declaration warranting its tax-exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; (c) For corporations/banks/trust departments or units of banks holding common or individual trust funds or investment management accounts on behalf of qualified individual investors, a duly notarized declaration warranting its tax-exempt status and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and (d) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or required under applicable regulations of the relevant taxing or other authorities. Unless properly provided with satisfactory proof of the tax-exempt status of a CD Holder, the Registrar and Paying Agent may assume that such CD Holder is taxable and proceed to apply the tax due on the BDO Series 2017-1 CDs. Notwithstanding the submission of documentary proof of the tax-exempt status of a CD Holder, the Bank may, in its sole and reasonable discretion, determine that such CD Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the BDO Series 2017-1 CDs. Any question on such determination shall be referred to the Bank.
26	**Replacement Registry Confirmations**	In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar, upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery to the CD Holders of the Registry Confirmation, subject to applicable fees.

The Registrar and Paying Agent, at its option, may also require from the CD Holders requesting replacement of the Registry Confirmation the payment of a sum sufficient to reimburse the Bank and/or the Registrar and Paying Agent for any tax or other governmental charge connected with the issuance of any such substitute Registry Confirmation and the cost of preparing such Registry Confirmation, and all legal and other expenses incurred by the Registrar and Paying Agent in connection with such issuance.

27 Notices

Except for a notice to declare an Event of Default which must be personally delivered, any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

BDO UNIBANK, INC.
BDO Corporate Center
7899 Makati Avenue, Makati City
Metro Manila, Philippines

Telephone no.:	(63) 2 840-7142
Fax no.:	(63) 2 840-7362
E-mail:	reyes.luis@bdo.com.ph
Attention:	Luis S. Reyes, Jr. Senior Vice-President

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORP.
37thFloorTower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.:	(632) 884-4439/884-4425
Fax no.:	(632) 7576025
E-mail:	baby_delacruz@pds.com.ph
Attention:	Josephine Dela Cruz Director – Securities Services

Telephone no.:	(632) 884-4413
Fax no.:	(632) 884-5097
E-mail:	peachy.garcia@pds.com.ph
Attention:	Patricia Camille Garcia Registry Officer

And in the case of notices to the CD Holders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when despatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall

		not invalidate the original communication.
28	**Governing Law**	These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
29	**Jurisdiction**	The courts of Makati City are to have jurisdiction to settle any disputes which may arise out of or in connection with the BDO Series 2017-1 CDs and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the BDO Series 2017-1 CDs or these Terms and Conditions (“Proceedings”) may be brought in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each CD Holder and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
30	**Amendment**	Any amendment of these Terms and Conditions is subject to the Governing Regulations.
31	**Non-Waiver**	The failure of any party at any time or times to require the performance by the other of any provision of the BDO Series 2017-1 CDs or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
32	**Ability to File Suit**	Nothing herein shall be deemed to create a partnership or collective venture between the CD Holders. Each CD Holder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other CD Holders to be joined as a party in any judicial or other proceeding for such purpose.
33	**Severability**	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
34	**Prescription**	Any action upon the BDO Series 2017-1 CDs shall prescribe in ten (10) years from the time the right of action accrues.

DESCRIPTION OF THE BANK

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, rural banking, stock brokerage, 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 March 31, 2017, 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, total assets, capital and total trust funds under management. The Bank's consolidated total assets were ₱1.9 trillion, ₱2.0 trillion and ₱2.3 trillion as of December 31, 2014, 2015 and 2016, respectively, and ₱2.4 trillion as of March 31, 2017 while total capital funds stood at ₱179.7 billion, ₱199.6 billion, ₱217.5 billion and ₱282.4 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 March31, 2017, the Bank had a network of 1,125 operating domestic branches (including 125 ONB branches) and one foreign branch (in Hong Kong) with 92 more domestic branch licenses for deployment. Its network includes 26 overseas remittance offices and representative offices (including one full service branch in Hong Kong) as of March 31, 2017, and 3,749 ATMs (including 229 ONB ATMs) and 343 CAMs as of March31, 2017. As March31, 2017, the SM Group was the Bank's largest shareholder group, with an effective common equity interest, along with other affiliated companies, of approximately 54.53% of the Bank's issued common shares.

As of March 31, 2017 the Bank had a market capitalization on the PSE of approximately ₱513.6 billion. The Bank's consolidated CET1 ratio, Tier 1 capital adequacy ratio and total capital adequacy ratio were 14.0%, 14.2% and 15.6%, respectively, as of March 31, 2017.

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") P10 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 AGs 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 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.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

OTHER 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.

In March 2017, the Bank signed a Memorandum of Understanding with Shinkin Central Bank (SCB) to develop a business cooperation envisioned to benefit the Japanese bank's SME clients already operating in the Philippines and those eyeing the country as a potential investment destination. The Bank will potentially provide banking services which may include financial facilities, cash management and payment services, foreign exchange and other treasury products to SCB's diversified SME clients.

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 March 31, 2017, the Bank is the Philippines' largest bank in terms of total resources, customer loans, deposits, capital and trust assets. In addition, the Bank believes it has one of the widest domestic branch networks in the Philippines spanning all major cities across the country with 1,125 domestic branches (including 125 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 corporate, middle market, SMEs and consumer loans), deposit products, foreign exchange, brokering, trust and investments, credit cards, cash management and remittances, among others. Through its subsidiaries, the Bank also offers leasing and financing, investment banking, private banking, bancassurance, insurance brokerage and stock brokerage services. *See "Subsidiaries and Affiliates"*. The Bank believes that its diversified business model with products and services catering to the changing needs of Filipino customers has provided it with a sustainable and diversified earnings stream, mainly comprising core interest income from lending activities, as well as growing non-interest income from service-based products that is expected to increase the recurring fee income contribution to the Bank's operating income. For the year ended December 31, 2016, however, the Bank's other operating income, mainly comprising non-interest income, increased by 30.3% to ₱41.6 billion, from ₱31.9 billion for the year ended December 31, 2015. For the three-month ended March 31, 2017, the Bank's other operating income increased by 52.4% to ₱11.4 billion, from ₱7.5 billion for the three months ended March 31, 2016. Moreover, the Bank believes that it has built a stable earnings base, wherein approximately 90% 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 March 31, 2017, the Bank's network consists of 1,125 domestic branches (including 125 ONB branches), 3,749 ATMs (including 229 ONB ATMs), 343 CAMs and one full service branch in Hong Kong. As of March 31, 2017, the Bank also has 25 remittance and representative offices across Asia, North America and Europe. The Bank has also entered into numerous business arrangements with correspondent banks, designated agents and other joint venture and business partners worldwide.

As a result of these, the Bank believes its branches have one of the highest ratios of deposits per branch in the Philippines, enabling the Bank to rapidly expand its low cost deposit base despite facing certain branch expansion restrictions from the BSP. Its low cost deposit base (comprising demand and savings deposits) increased from ₱1.138 trillion as of December 31, 2015 to ₱1.382 trillion as of December 31, 2016, representing a growth of 21.5%. As of March 31, 2017, its low cost CASA deposit base further grew to ₱1.404 trillion . As of March 31, 2017, December 31, 2016, 2015 and 2014, 72.8% and 72.6%, 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 has 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 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 efficiency of service delivery.

Strong and experienced management team

The Bank believes it has assembled a strong management team, with significant experience and proven track records in Philippine banking. The Bank's senior executive officers (comprising officers from the senior vice-president level and above who head business or support groups) have an average of over 20 years of experience in the banking and financial services sectors, primarily with certain of the Philippines' largest and most well-known banks. In addition, the Bank's executives and officers have a broad range of experience in their respective areas of banking and finance , 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 more effectively manage its concentration risk. While the Bank believes it already maintains a diversified loan portfolio across various market segments, it intends to increase lending to the more profitable and growing consumer and middle-market segments. 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, 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 funding costs

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

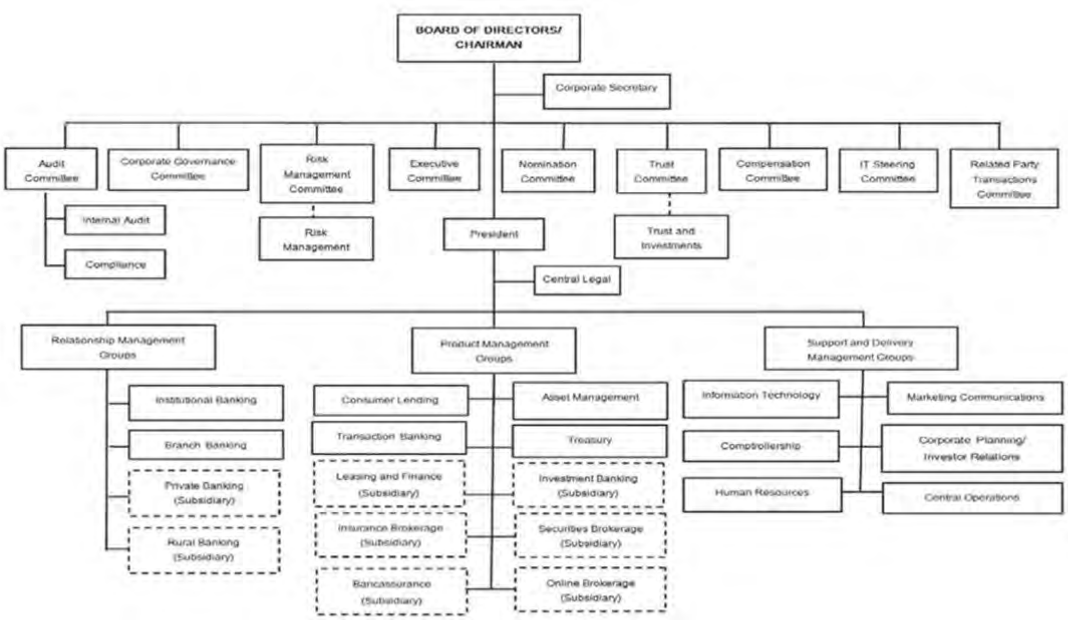
The Bank also intends to maintain its extensive branding campaign to further create customer awareness and market visibility, thus enhancing the potential of its extensive distribution platform across varying media outlets. Accordingly, the Bank intends to implement continuing branch renovations and 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 March 31, 2017.



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 76.9% of the total loan book as of March 31, 2017, amounting to ₱838.3 billion, ₱985.7 billion, ₱1.1 trillion and ₱1.2 trillion as of December 31, 2014, 2015, 2016 and March 31, 2017, 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, (audited) (in ₱ millions)			As of March 31 (unaudited) (in ₱ millions)
	2014	2015	2016	2017
Corporate	510,671	593,446	680,228	722,466
Corporate	481,143	563,191	622,926	654,973
Finanical institutions	8,924	6,760	7,191	13,312
Wholesale/international desks	20,604	23,495	50,111	54,181
Commercial	327,627	392,302	458,709	464,811
Total	838,298	985,748	1,138,938	1,187,278

Corporate Banking

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

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

As of December 31, 2014, 2015 and 2016, accounts of large corporate customers represented approximately 46.9%, 46.4% and 45.9%, respectively, of the Bank's total loan portfolio. As of March 31, 2017, corporate loans grew by 23.2% year-on-year to ₱722.5 billion, representing 46.8% of the Bank's total loan portfolio of ₱1.544 trillion. 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, 2014, 2015 and 2016, Combank's lending to the middle-market segment accounted for approximately 30.1%, 30.7% and 31.0%, respectively, of the Bank's total loan portfolio. As of March 31, 2017 the Bank's commercial loan portfolio totalled ₱464.8 billion, representing 30.1% 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, 2014, 2015, 2016 and March 31, 2017, total deposits were ₱1.492 trillion, ₱1.664 trillion, ₱1.905 trillion and ₱1.928 trillion, respectively, with Peso deposits representing approximately 80.4%, 81.0%, 79.8% and 79.8%, respectively, of the Bank's deposits and the remainder denominated in foreign currencies, principally U.S. dollars. As of March 31, 2017, the Bank had approximately 8.2 million customers. As of March 31, 2017, the Bank's branch network comprised of 1,125 domestic branches (including 125 ONB branches) and one foreign branch, with 92 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 3,749 ATM facilities (including 229 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 structures to address clients' specific financial needs.

PRODUCT MANAGEMENT

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

Consumer Lending

The Bank offers an expanded range of consumer finance products, including residential mortgages, auto loans, personal loans and credit card services. As of December 31, 2014, 2015 and 2016, consumer-related loans comprised approximately 18.1%, 19.9% and 20.3%, respectively, of the Bank's total loans. As of December 31, 2016, BDO's consumer loans increased by 18.3% from ₱254.6 billion as of December 31, 2015 to ₱301.3 billion, contributing 20.3% to BDO's total loan portfolio. As of March 31, 2017, the Bank's consumer loans increased by 20.5% to ₱315.0 billion from ₱261.3 billion as of March 31, 2016, 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, (audited) (in ₱ millions)			**As of March 31 (unaudited) (in ₱ millions)**
	2014	2015	2016	2017
Credit Cards	35,985	39,921	46,761	48,096
Real Estate	106,794	130,749	156,403	164,712
Auto Loans	44,737	53,214	65,364	69,494
Personal Loans	803	18,280	19,543	18,923
Business Loans	8,447	12,473	13,278	13,789
Total	196,766	254,637	301,349	315,014

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, 2014, 2015, 2016 and March 31, 2017, the Bank had combined cards-in-force of 1,579,504, 1,529,711, 1,716,497 and 1,786,978, respectively, and had a receivable portfolio of ₱36.0 billion,₱39.9 billion, ₱46.8 billion and ₱48.1 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 ₱106.8 billion, ₱130.7 billion, ₱156.4 billion and ₱164.7 billion, respectively, as of December 31, 2014, 2015, 2016 and March 31, 2017, respectively. Through these tie-ups, the Bank also purchases home loan receivables and wholesale real estate portfolios via its Contract to Sell ("CTS") Receivables Financing Program from developers that indirectly finance sales to their buyers. These loans usually provide full recourse to the developer. These CTS transactions may be converted into regular end-buyer financing by the Bank upon loan application approval by the Bank. All of the Bank's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Bank often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Bank, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

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

Auto Loans

The Bank provides auto financing to individuals for the acquisition of mainly new cars, buses and other types of vehicles. The Bank's retail auto loans are typically between ₱700,000 and ₱1.0 million and for 12- to 60-month terms, with the average tenor being three years. The applicable interest rate is generally fixed with 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, 2014, 2015, 2016 and March 31, 2017, the Bank's auto loan portfolio stood at ₱44.7 billion, ₱53.2 billion, ₱65.4 billion and ₱69.5 billion, respectively.

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

Personal Loans

The Bank offers unsecured personal loans in amounts from ₱10,000 to ₱3,000,000, although the current average is at ₱859,000. Payment is 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, 2014, 2015, 2016 and March 31, 2017, the personal loan portfolio stood at ₱0.8 billion, ₱18.3 billion, ₱19.5 billion and ₱18.9 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, 2014, 2015, 2016 and March 31, 2017, the Bank's net trading and investment securities stood at ₱221.5 billion, ₱225.8 billion, ₱269.0 billion and ₱298.4 billion, respectively, and accounted for 11.9%, 11.1%, 11.6% and 12.5%, respectively, of the Bank's total resources. For the years ended December 31, 2014, 2015, 2016 and for the three months ended March 31,2017, gross revenues from investment securities stood at ₱7.3 billion, ₱7.5 billion, ₱8.1 billion and ₱2.2 billion, respectively, which represented 9.1%, 8.4%, 7.6% and 7.4%, respectively, of the Bank's total operating income during said periods. As of December 31, 2014, 2015, 2016 and March 31, 2017 approximately 65.2%, 61.8%, 62.8% and 64.9%, 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, (audited) (in ₱ millions)			As of March 31 (unaudited) (in ₱ millions)
	2014	2015	2016	2017
Government bonds	145,777	142,036	171,661	196,400
Other debt securities (1)	63,358	71,368	75,077	76,601
Total debt securities	209,135	213,404	246,738	273,001
Non-debt securities (2)	10,941	10,830	19,777	23,304
Derivative financial assets (3)	3,609	5,461	6,845	6,455
Total (4)	223,685	229,695	273,360	302,760

(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 retail market 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) and SMEs. The cash management services offered by the Bank to these institutions include collections, disbursements, liquidity management, account services, electronic banking services and retail payment services. The Bank's corporate transactional banking customer base has grown from 77 in 2002 to over 15,000 corporate customers as of March 31, 2017. 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, 2016)
- Asian Banking and Finance Wholesale Banking Awards (Philippine Domestic Cash Management Bank of the Year for 2012, 2015; Online Banking Initiative of the Year for 2016; Mobile Banking Initiative of the Year for 2016; Social Media Initiative of the Year for 2016)
- 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; Best Service Provider – Cash management for 2016; Editors' Triple Star for E-Cash Agad for 2016))
- Alpha Southeast Asia (Best Cash Management Bank in the Philippines for 2008, 2009, 2015, 2016)

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 internet banking to both individual and corporate clients. Using industry-standard security measures, BDO's Internet 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, execute wire transfers and issue stop payment orders. With mobile internet banking, customers can also access BDO Internet 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 Corporate Internet Banking. It also provides consolidated information to facilitate liquidation management. An internet 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 reload, and reload to an enrolled SMART Money account.

Automated Teller Machines (ATM)

BDO's ATMs allow customers to withdraw cash, avail of credit card cash advances, check account balances, transfer money, pay bills, top up prepaid phones, reload cash cards, reorder checkbooks, change personal identification numbers ("PIN") and activate Personal Online Banking enrollment at any of the ATM terminals nationwide which, as of March 31,2017, numbered 3,749 ATMs (including 229 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 March31, 2017, the Bank has over 5.7 million active cards generating a total of around 69.3 million transactions amounting to ₱221.6 billion worth of financial transactions.

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 March 31, 2017, the Bank has over 1.3 million active BDO Cash Cards among more than 1,600 payroll companies, 24 remittance partners and retail clients, generating ₱21.6 billion worth of financial transactions.

Smart Money Card

The Smart Money Card is a Bank-issued co-branded card with PayMaya Philippines, 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. It is also used by Smart Trade dealers in the buying and selling of airtime load to Smart retailers nationwide. As of March 31, 2017, the Bank had an active cardholder base of over 350,000 generating about 20.9 million financial transactions worth ₱41.5 billion. Smart Money facilitates sending of money to Smart’s subscribers and encashment in 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 March 31, 2017, 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 355 remittance/money transfer tie-ups, 628 accredited foreign and local correspondent banks and at least 21 designated agents.

For the years ended December 31, 2014, 2015 and 2016, the Bank’s volume of OFW remittances amounted to US$9.5 billion, US$10.4 billion and US$11.4 billion, respectively, representing a 14.1%, 8.9% and 10.1% increase year-on-year, respectively. In the three months ended March 31, 2017, the Bank’s volume of OFW remittances was US$2.9 billion, an increase of 11.4% from its volume of OFW remittances for the three months ended March 31, 2017.

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

As of March 31, 2017, the Bank had an approximately 38.2% 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 bonds and commercial paper, including corporate and government bonds and short-term and long-term commercial papers. BDO Capital also offers 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 was involved in major fundraising exercises for the Government (via Retail Treasury Bond Issues) and private issuers such GNPower Dinginin Ltd. Co. (Project Finance Deal of the Year for 2016 by the Investment House Association of the Philippines and Power Deal of the Year in the Philippines for 2016), GT Capital Holdings Inc., Arthaland Corp., San Miguel Group (Petron Corp. and San Miguel Corp.), SM Group (SM Prime Holdings and SM Investments Corp., Philippine Airlines, Ayala Corp., Alpha Land Corp., Megaworld Corp., Smart Communication Inc., and Esquire Financing, Inc. BDO Capital was lead manager and/or lead underwriter for the IPOs of Cemex Holdings Philippines (Best Mid-Cap Equity Deal - The Asset Regional Deal Awards, Best Equity Deal/Best IPO in the Philipppines - The Asset Triple A Country Awards, Best Equity Deal in Southeast Asia - Alpha Southeast Asia and Best Equity Deal - Investment House Association of the Philippines), Shakey's Pizza Asia Ventures, Inc., Wilcon Depot Inc. and Cebu Landmasters Inc. In addition, BDO Capital was the issue manager for the first-ever US Dollar-denominated security issue in the Philippines (Del Monte Pacific Ltd.'s Preferred Shares Issue), and the largest equity capital markets transaction by a bank in the Philippines to-date (BDO Unibank, Inc.'s Rights Offer).

BDO Capital has received several awards from prestigious international publications over the last ten 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 again in 2017, and from 2007 to 2014 as awarded by FinanceAsia and Alpha South East 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 2017. BDO Capital also received the Best Investment Bank in the Philippines award for 2013 and 2014 from Global Finance and Top Investment House in the Philippines award for 2016 from Acquisition International. BDO Capital also garnered awards as Best Investment House, Best Equity House, Best Fixed Income House and Best Project Finance House of the Year for 2016 from the Investment House Association of the Philippines. BDO Capital was also conferred the Top Corporate Issue Manager/Arranger Award from 2011 to 2016 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 Unit Investment Trust Funds ("UITFs"). UITFs are collective investment schemes that seek to offer returns comparable to those of larger investors. They are professionally managed according to specific investment objectives and invested accordingly in diversified portfolios. A client has the choice of investing directly in the UITFs or through the BDO Easy Investment Plan ("EIP"), a program that facilitates regular investing in selected BDO UITFs. The EIP is an investment scheme that assists individuals in attaining their financial goals and financial wellness through saving and investing.

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

The Bank's consolidated trust assets under management reached ₱1.005 trillion as of March 31, 2017, an 11.3% increase from the ₱902.5 billion managed as of March 31, 2016. 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 ₱317.7 billion as of March 31, 2017.

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. (Note: the most recent survey covered the period ending June 30, 2015)

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 ***AsianInvestor 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***
- 2017 Fund House of the Year for the Philippine Market by ***AsianInvestor Magazine***
- 2017 Best Investment Management Company – Philippines by ***World Finance Magazine (London)***
- 2017 Asset Management Company 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. BDO Trust also offers the following PERA investment funds: BDO PERA Short Term Fund, BDO PERA Bond Index Fund and BDO PERA Equity Index Fund.

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 Center 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 423 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 March 2017 was 626,123 for customer calls and 54,510 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 March 31, 2017, the Bank employed a total of 31,620 people, 14,218 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, 2014, 2015, 2016 and for the three months ended March 31, 2017 were ₱18.1 billion, ₱21.1 billion, ₱24.7 billion and ₱5.1 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, 2016, the fair value of the retirement plan assets of the Bank was ₱21.9 billion and the net present value of the obligation was at ₱21.1 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit asset of ₱0.7 billion of 2016.

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 33.1 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 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 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.

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% final withholding tax, 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 August 16, 2016, the Supreme Court ordered the Bureau of Treasury to immediately release and pay each of the bondholders the amount of ₱4.9 billion, 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 and admit 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 ₱4.9 billion be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

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

On April 11, 2017, BDO Unibank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the Bureau of Treasury) to settle all claims and put closure to the Peace Bonds case. Under the terms of the Settlement Agreement;

1. The Bureau of Treasury paid BDO Unibank the 20% final withholding tax withheld on the PEACe bonds (amounting to P690), plus interest of 4% per annum from October 19, 2011 to April 10, 2017 (P151).

2. The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The Parent Bank presented the 20% FWT amounting to ₱690 million under Account Receivable account under Loans and Other Receivables in the statements of financial position.

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 on July 7, 2015

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.

On October 19, 2015, Land Bank of the Philippines ("LBP") filed a Motion for Leave to Admit LBP's Petition-in-Intervention.

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

On April 4, 2016 the RTC Makati denied the BIR's Motion for Reconsideration assailing the April 27, 2015 Order granting the application for preliminary injunction.

On January 30, 2017, Metropolitan Bank and Trust Company's (MBTC) Motion in Intervention and Petition for Declaratory Relief were admitted by the Court. Since then MBTC has been participating in the on-going pre-trial proceedings of the case.

Pre-Trial proceedings are still on-going and are scheduled to continue on August 3, 2017.

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 Offering Circular.

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.

	Audited as of December 31						**Unaudited As of March 31**	
	2014		**2015**		**2016**		**2017**	
	Amount	**Ave**	**Amount**	**Ave**	**Amount**	**Ave**	**Amount**	**Ave**
	(in ₱ millions, except Average Cost, which is in % terms)							
By Type								
Demand	85,807	0.1	104,066	0.1	114,284	0.1	117,130	0.1
Savings	872,976	0.3	1,033,652	0.3	1,267,983	0.3	1,287,110	0.3
Time	533,499	1.6	526,135	1.8	522,937	1.9	523,866	1.9
	1,492,282	0.8	1,663,853	0.8	1,905,2014	0.8	1,928,106	0.8
By currency								
Philippine Peso	1,200,473	0.6	1,347,327	0.7	1,521,183	0.7	1,537,874	0.7
Foreign currency	291,809	1.3	316,526	1.2	384,021	1.1	390,232	1.1
Total deposits	1,494,282	0.8	1,663,853	0.8	1,905,204	0.8	1,928,106	0.8
Borrowings								
Philippine Peso	25,391	1.1	30,708	2.0	34,409	2.4	30,760	2.6
Foreign currency	85,000	3.0	76,865	2.8	76,177	2.7	61,019	2.7
Total borrowings	110,391	2.4	105,573	2.5	110,586	2.6	91,779	2.6
Total	1,602,673	0.8	1,771,426	0.9	2,015,790	0.9	2,019,885	0.8

Note:

(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 93.1%, 93.9%, 94.5% and 95.5% of total funding sources as of December 31, 2014, 2015, 2016 and March 31, 2017, respectively. The Bank's deposits grew at an annual compounded average rate of 14.8% from December 31, 2008 to December 31, 2016, reaching ₱1.5 trillion as of December 31, 2014, ₱1.7 trillion as of December 31, 2015 and ₱1.9 trillion as of December 31, 2016. This historical growth was driven by increased marketing efforts by the Bank's branches and the Bank's mergers and acquisitions. As of March 31, 2017, total deposits increased to ₱1.9 trillion, approximately 79.8% of which were denominated in Pesos and mostly in tenors of less than one year, while approximately 20.2% were denominated in foreign currencies, predominantly U.S. dollars. The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of December

31, 2014, 2015, 2016 and March 31, 2017, the Bank's foreign currency deposits made up 19.6%, 19.0%, 20.2%, and 20.2% respectively, of its total deposits.

As of December 31, 2014, 2015, 2016 and March 31, 2017, approximately 64.2%, 68.4%, 72.6% and 72.8%, 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 ₱5.3 billion, ₱8.9 billion, ₱8.7 billion, and ₱6.0 billion, respectively, as of December 31, 2014, 2015, 2016 and March 31, 2017.

As of December 31, 2013, 2014, 2015 and 2016 the Bank's total bills payable amounted to ₱94.2 billion, ₱100.4 billion, ₱97.5 billion and ₱100.6 billion, respectively. Approximately 15.3%, 21.2% and 24.2%, respectively, of bills payable were denominated in Pesos as of December 31, 2014, 2015 and 2016. As of March 31, 2017, the Bank's total bills payable amounted to P ₱81.7 billion, of which 25.4% 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 ₱10.0 billion, ₱10.0 billion, ₱10.0 billion and ₱10.0 billion as of December 31, 2014, 2015, 2016 and March 31, 2017 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 offered 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 at the London Stock Exchange. As part of the offering, Primebridge, while remaining as the registered holder of the Bank shares underlying the GDRs, transferred all rights and interests in the Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter were entitled to receive dividends paid on the shares. However, GDR holders had no voting rights or other direct rights of a shareholder with respect to the Bank's shares.

As of 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 in 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 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 BDO Series 2017-1 CDs, 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% p.a. 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 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 are payable semi-annually every April 22 and October 22 starting in 2011. The net proceeds from the issuance are 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 Program ("MTN Program"). 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 was for the refinancing of an existing term loan and for general banking and corporate purposes.

Capital-Raising Program

On April 26, 2010, the Bank also undertook a US$250 million capital-raising program with the International Finance Corporation ("IFC"), IFC Capitalization (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), 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.

On January 31, 2017, the Bank listed 716,402,886 common shares on the PSE following the successful completion of its stock rights offer which raised net proceeds of ₱59.8 billion. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

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, 2014, 2015 and 2016 the Bank's liquid assets amounted to₱709.9 billion, ₱687.6 billion and ₱779.9 billion, equal to 38.1%, 33.9%, and 33.5%, respectively, of the Bank's total assets. As of March 31, 2017, the Bank's liquid assets were ₱877.8 billion, representing 36.6% of total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loan receivables and investment securities. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	Audited As of December 31			**Unaudited As of March 31**
	2014	**2015**	**2016**	**2017**
Liquidity Position				
Liquid Assets....................................	709,904	687,584	779,866	877,845
Financial Ratios				
Liquid Assets-to-Total Assets...........	38.1	33.9	33.5	36.7
Liquid Assets-to-Total Deposits	47.6	41.3	40.9	45.6
Net Loans-to-Total Deposits	71.2	75.3	76.4	78.7

LENDING

As of December 31, 2014, 2015 and 2016, the Bank's total loan portfolio (net of unearned interest or discount) on a consolidated basis amounted to ₱1.1 trillion, ₱1.3 trillion, and ₱1.5 trillion, respectively, representing approximately 58.5%, 63.0% and 63.7%, respectively, of its total assets as of those dates. As of March 31, 2017, the Bank's total gross loan portfolio, on a consolidated basis, amounted to ₱1.5 trillion, representing approximately 64.4% of its total assets as of that date. The Bank's gross loan portfolio grew at a compounded annual growth rate of 20.8% from December 31, 2008 to December 31, 2016, 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 March 31
	2014	2015	2016	2017
Large Corporates	510,671	593,446	680,228	722,466
Mid-Market	327,627	392,302	458,709	464,811
Consumer	197,766	254,637	301,349	315,014
Others	54,305	38,967	41,717	41,366
Total	**1,089,369**	**1,279,352**	**1,482,004**	**1,543,658**

Industry Concentration

Wholesale and retail trade, repair of motor vehicles and motorcycles; real estate activities; manufacturing; financial and insurance activitiesand electricity, gas, steam and air-conditioning supply represent the largest sectors of the Bank's loan portfolio, representing 13.1%, 12.9%, 12.7%, 10.5% and 10.1%, respectively, of the Bank's loan portfolio as of March 31, 2017. These sectors represented 13.9%, 13.9%, 12.9%, 10.2% and 9.3%, respectively, of the Bank's loan portfolio as of December 31, 2016 .

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:

	Audited As of December 31,						Unaudited As of March 31,	
	2014		2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Agriculture, Forestry and Fishing	9,124	0.8	14,702	1.1	14,054	0.9	13,344	0.9
Mining and Quarrying	6,669	0.6	11,149	0.9	9,632	0.6	25,723	1.7
Manufacturing	137,676	12.6	149,197	11.7	191,720	12.9	196,086	12.7
Electricity, Gas, Steam and Air-conditioning Supply	103,584	9.5	126,441	9.9	137,381	9.3	156,058	10.1
Water supply, Sewerage, Waste Management and Remediation Activities	13,987	1.3	13,450	1.1	12,278	0.8	12,510	0.8
Construction	23,196	2.1	25,942	2.0	29,856	2.0	30,512	2.0
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	161,425	14.8	186,344	14.6	206,205	13.9	201,768	13.1
Transportation and Storage	50,267	4.6	55,067	4.3	99,871	6.7	101,786	6.6
Accommodation and Food Services Activities	32,834	3.0	38,478	3.0	43,837	3.0	41,335	2.7
Information and Communication	25,462	2.4	22,930	1.8	27,334	1.8	31,694	2.1
Financial and Insurance Activities	181,628	16.7	169,064	13.2	150,735	10.2	162,444	10.5
Real Estate Activities	114,534	10.5	184,770	14.4	205,376	13.9	199,695	12.9

	2014		Audited As of December 31, 2015		2016		Unaudited As of March 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in ₱ millions, except percentages)							
Professional, Scientific and Technical Services	15,128	1.4	17,409	1.4	11,042	0.7	11,674	0.8
Administrative and Support Services	4,877	0.5	6,794	0.5	8,662	0.6	8,796	0.6
Public Administrative and Defense; Compulsary Social Security	322	0.0	257	0.0	535	0.0	548	0.0
Education	1,827	0.2	9,773	0.8	10,840	0.7	11,815	0.8
Human Health and Social Work Activities	9,316	0.9	11,497	0.9	16,282	1.1	16,670	1.1
Arts, Entertainment and Recreation	17,613	1.6	18,308	1.4	54,401	3.7	60,227	3.9
Other Service Activities	66,798	6.1	105,001	8.2	124,661	8.4	124,425	8.1
Activities of Private Household as Employers and Unfidfferentiated Goods and Services and Producing Activities of Households for Own Use	113,049	10.4	112,751	8.8	127,236	8.6	136,488	8.8
Activities of Extraterritorial Organizations and Bodies	53	0.0	28	0.0	66	0.0	70	0.0
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,482,004**	**100.0**	**1,543,658**	**100.0**

The Bank maintains a flexible policy towards its exposure to various industries, in principle avoiding exposure of more than 20% to a particular industrial sub-sector of the economy, and 30% in the case of the manufacturing sub-sector. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations.

Maturity

The following table sets forth an analysis of the Bank's loans by maturity:

Loans by Maturity	**Audited as of December 31**						**Unaudited as of March 31**	
	2014		**2015**		**2016**		**2017**	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Due within one year	433,158	39.8	409,737	32.0	481,382	32.5	456,743	29.6
Due within one to five years	129,743	11.9	189,618	14.8	239,059	16.1	249,823	16.2
Due beyond five years	526,468	48.3	679,997	53.2	761,563	51.4	837,092	54.2
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,482,004**	**100.0**	**1,543,658**	**100.0**

Loan Currencies

As of December 31, 2014, 2015 and 2016, 84.4%, 85.0% and 87.3%, respectively, of the Bank's loan portfolio were denominated in Pesos and 15.6%, 15.0% and 12.7%, respectively, were denominated in foreign currency, a substantial proportion of which was denominated in U.S. dollars. As of March 31, 2017, 84.7% of the Bank's loan portfolio (net of unearned interest or discount) was in Pesos and 15.3% was in foreign currencies.

Loans by Currency	Audited as of December 31						Unaudited as of March 31	
	2014		2015		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In ₱ millions, except percentages)							
Peso	919,135	84.4	1,087,166	85.0	1,293,842	87.3	1,307,926	84.7
Foreign								
USD	167,156	15.3	186,452	14.6	182,074	12.3	230,064	14.9
Yen	885	0.1	852	0.1	906	0.1	1,011	0.1
Other Foreign Currency	2,193	0.2	4,882	0.3	5,182	0.3	4,658	0.3
Total	**1,089,369**	**100.0**	**1,279,352**	**100.0**	**1,482,004**	**100.0**	**1,543,658**	**100.0**

Interest Rates

As of March 31, 2017, 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"*.

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 March 31, 2017, the Bank's SBL was ₱66.7 billion. The Bank has complied with this SBL for all of its loans.

As of December 31, 2014, 2015 and 2016 the Bank's ten largest borrowers accounted for ₱151.9 billion, ₱165.8 billion and ₱201.4 billion, respectively, or 13.9%, 12.1% and 13.5% of the Bank's outstanding loan portfolio of ₱1,089.4 billion, ₱1,279.4 billion and ₱1,482.0 billion (excluding interbank loans). As of March 31, 2017, the Bank's ten largest borrowers accounted for ₱220.4 billion, or 14.3%, of the Bank's loan portfolio.

The following sets forth a breakdown of total loans by principal amount as of March 31, 2017:

Principal amount of loans (in Pesos)	Percentage
Less than 5,000,000	21.1%
5,000,001 to 10,000,000	3.9%
10,000,001 to 15,000,000	2.1%
More than 15,000,000	72.8%
Total	**100.0%**

Secured and Unsecured Loans

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will secondarily seek to 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, 2014, 2015, 2016 and March 31, 2017, approximately 37.0%, 26.1%, 27.8% and 28.9%, respectively, of total loans were extended on a secured basis. Approximately 42.3%, 45.6% 47.8% and 47.1% 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. Either the Bank's President, Vice Chairman or RMG head may give final approval of a loan account's classification.

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, stockholders and their related interests ("DOSRI"). All such loans are on commercial, arm's length terms. The General Banking Law (Republic Act No. 8791) and BSP regulations require that the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 100% of the Bank's net worth or 15% of the Bank's total loan portfolio, whichever is lower. The amount of any loan to a DOSRI of the Bank, of which 70% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis.

As of December 31, 2014, 2015 and 2016 DOSRI loans accounted for ₱47.9 billion, ₱29.7 billion and ₱23.2 billion, respectively, or approximately 4.4%, 2.3% and 1.6%, respectively, of the Bank's total loans. As of March 31, 2017, DOSRI loans accounted for ₱19.1 billion or approximately 1.2% of the Bank's total loans. Of those amounts, ₱46.4 billion, ₱28.1 billion, ₱21.8 billion and ₱17.7 billion (which includes secured non-risk loans not subject to SBL ceiling), respectively, were accounted for by the SM Group as of December 31, 2014, 2015, 2016 and March 31, 2017, 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 Parent Bank's aggregate loan portfolio (as a percentage of total outstanding loans):

	Audited As of December 31						Unaudited As of March 31	
	2014 Amount	%	2015 Amount	%	2016 Amount	%	2017 Amount	%
	(in ₱ millions, except percentages)							
Loans especially mentioned	15,472	1.5	19,560	1.6	7,247	0.5	5,988	0.4
Sub-standard	3,880	0.4	4,277	0.4	11,076	0.8	10,670	0.7
Doubtful	2,614	0.2	1,769	0.1	5,097	0.3	5,909	0.5
Loss	9,321	0.9	6,734	0.5	8,322	0.6	8,107	0.5
Total classified	31,287	3.0	32,340	2.6	31,742	2.2	30,685	2.1
Unclassified	1,033,074	97.0	1,192,178	97.4	1,387,489	97.8	1,456,142	97.9
Total	**1,064,361**	**100.0**	**1,224,518**	**100.0**	**1,419,231**	**100.0**	**1,486,827**	**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 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 signaling 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 March 31
	2014	2015	2016	2017
	(in ₱ millions, except ratios, which are in percentages)			
Gross non-performing loans [1]	16,298	14,983	17,943	18,929
Net non-performing loans [1]	1,278	3,388	5,906	6,248
Total loans [1]	1,211,527	1,393,547	1,561,681	1,569,707
Gross non-performing loans to total loans (%)[1]	1.3	1.1	1.1	1.2
Net non-performing loans to total loans (%) [1]	0.1	0.2	0.4	0.4
Non-performing loans [2]	14,197	15,790	18,775	19,783
Total loans	1,089,369	1,279,352	1,482,004	1,543,658
Total non-performing loans to total loans – excluding interbank loans (%) [3]	1.3	1.2	1.3	1.3
Total non-performing loans to total loans – including interbank loans (%) [4]	1.3	1.2	1.2	1.2
ROPA – net	8,847	7,278	7,770	7,758
Non-performing assets [5]	25,987	25,925	29,116	32,683
Non-performing assets as percentage of total resources (%)	1.4	1.3	1.3	1.4
Allowance for impairment of assets	29,695	29,083	28,733	29,854
Allowance for loan	26,752	26,226	26,161	27,283
Allowance for ROPA impairments	2,943	2,857	2,571	2,571
Allowances for loan impairments as % of total non-performing loans (NPL coverage)	188.4	166.1	139.3	167.9
Allowance for impairment of assets as a % of non-performing assets (%)	114.3	112.2	98.71	91.3
Total restructured loans	1,415	1,974	1,743	1,738
Current	52	398	170	165
Past due	1,309	1,522	1,521	1,521
In-Litigation	54	54	52	52
Restructured loans as % of total loans	0.1	0.2	0.1	0.1
Loans written off	3,448	2,563	3,313	395

(1) Per BSP Circular 772, includes Receivable from Special Purpose Vehicles ("SPVs") presented under Other Resources
(2) Excludes Receivable from 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 comprised 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 March 31, 2017, the Bank's ten largest NPLs amounted to ₱4.2 billion or approximately 0.3% of the Bank's total loans.

Sectoral Analysis of Non-Performing Loans

The following table sets forth, as of the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and a percentage of the Bank's gross NPLs:

Industry Classifications	2014		Audited As of December 31, 2015		2016		Unaudited As of March 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture, Forestry and Fishing	366	2.6	620	3.9	862	4.6	891	4.5
Mining and Quarrying	16	0.1	17	0.1	15	0.1	22	0.1
Manufacturing	2,616	18.4	2,559	16.2	4,745	25.3	4,509	22.8
Electricity, Gas, Steam and Air-conditioning Supply	159	1.1	27	0.2	25	0.1	33	0.2
Water supply, Sewerage, Waste Management and Remediation Activities	10	0.1	4	0.0	20	0.1	14	0.1
Construction	181	1.3	200	1.3	244	1.3	341	1.7
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycle	2,337	16.5	2,499	15.8	2,642	14.1	2,734	13.8
Transportation and Storage	96	0.7	89	0.6	122	0.6	118	0.6
Accommodation and Food Services Activities	43	0.3	61	0.4	76	0.4	211	1.1
Information and Communication	52	0.4	48	0.3	104	0.6	115	0.6
Financial and Insurance Activities	138	1.0	154	1.0	132	0.7	161	0.8
Real Estate Activities	412	2.9	464	2.9	487	2.6	512	2.6
Professional, Scientific and Technical Services	173	1.2	194	1.2	137	0.7	128	0.6
Administrative and Support Services	124	0.9	195	1.2	227	1.2	265	1.3
Public Administrative and Defense; Compulsary Social Security	14	0.1	8	0.1	14	0.1	14	0.1
Education	11	0.1	386	2.4	451	2.4	562	2.8
Human Health and Social Work Activities	23	0.2	58	0.4	78	0.4	175	0.9
Arts, Entertainment and Recreation	7	0.0	7	0.0	5	0.0	5	0.0
Other Service Activities	1,985	14.0	2,603	16.5	3,548	18.9	3,984	20.1
Activities of Private Household as Employers and Unfidfferentiated Goods and Services and Producing Activities of Households for Own Use	5,432	38.3	5,595	35.4	4,837	25.8	4,986	25.2
Activities of Extraterritorial Organizations and Bodies	2	0	2	0.0	2	0.0	2	0.0
Total	**14,197**	**100.0**	**15,790**	**100.0**	**18,775**	**100.0**	**19,783**	**100.0**

Loans that are subsequently foreclosed or transferred to the Bank's ROPA account are removed from the non-perfroming 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 nd NPLs.

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to non-performing loans that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on a non-performing loan 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 three months ended March 31, 2017, the Bank sold ₱0.5 billion of acquired assets in ROPA, respectively. The Bank had a net ROPA of ₱8.8 billion, ₱7.3 billion and ₱7.8 billion, as of December 31, 2014, 2015, 2016, respectively, consisting of various real estate properties and shares of stock in several companies. As of March 31, 2017, the Bank's net ROPA amounted to ₱7.8 billion, or 3.9% higher than the ₱7.5 billion as of March 31, 2016.

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 ₱2.9 billion, ₱2.9 billion, ₱2.6 billion and ₱2.6 billion as of December 31, 2014, 2015, 2016 and March 31, 2017, 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 March 31, 2017:

Philippine Subsidiaries	**% 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	99.88%
BDO Nomura Securities, Inc. (formerly PCIB Securities)	51%
BDO Leasing and Finance, Inc.	87.43%
Equimark – NFC Development Corp.	60%
One Network Bank, Inc. ("ONB")	99.76%
PCI Insurance Brokers, Inc.*	100%
BDO Life Assurance Holdings Corp. (1)	98.05%
Foreign Subsidiaries	**% 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	**% Interest Held**
SM Keppel Land, Inc.	50%
Taal Land, Inc.	33%
NorthPine Land Incorporated	20%
NLEX Corporation	12.4%
PCI Travel Corporation*	35%
MMPC Auto Financial Services Corporation	34.97%

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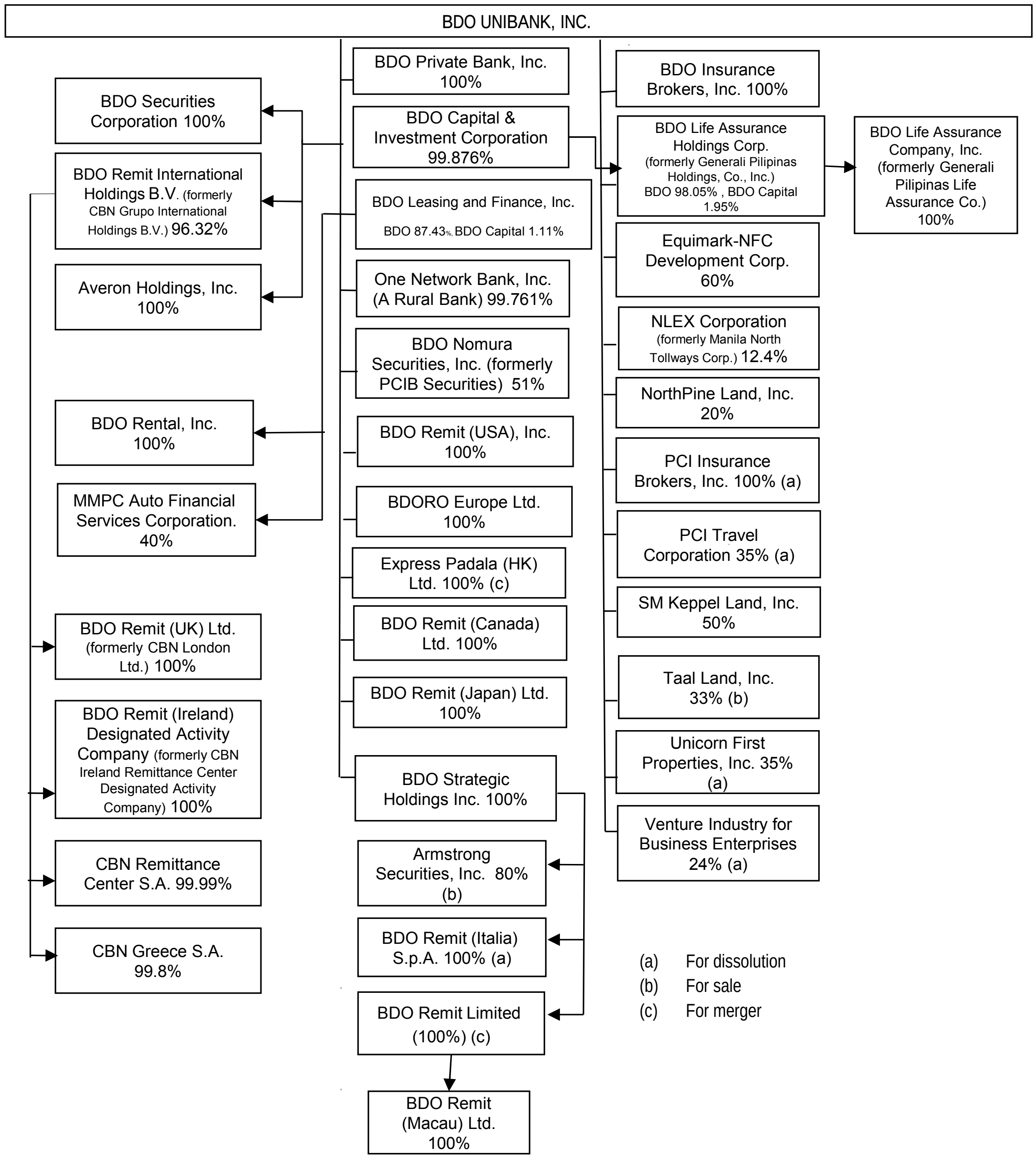
* For dissolution

(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 operating subsidiaries and associates as of March 31, 2017 appears below.



SUBSIDIARIES

BDO Capital & Investment Corporation

BDO Capital & Investment Corporation, is the Bank's investment banking arm 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"*.

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, 2014, 2015 and 2016 and for the three months ended March 31, 2017, ₱5.9 billion, ₱7.0 billion, ₱8.7 billion and ₱2.0 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. In partnership with Generali Pilipinas Holding, the Bank has obtained a bancassurance license from the BSP which permits the Bank to market and sell both life and non-life insurance products through its branch network.

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, 2014, 2015, 2016 and March 31, 2017, BDO Private Bank had ₱38.9 billion, ₱51.6 billion, ₱62.3 billion and ₱63.8 billion in total resources, respectively. Its total Assets Under Management as of December 31, 2014, 2015, 2016 and March 31, 2017 were at ₱279.4 billion, ₱308.7 billion, ₱350.4 billion and ₱357.9 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 House in the Philippines 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. 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 West Covina, Los Angeles and San Francisco, and its agents in California and other states.

Express Padala (Hongkong) Ltd.

Express Padala (Hongkong) 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 the Companies House on May 30, 2012. It is now in the process of completing the documents to support its application for a banking license 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 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.

NLEX Corporation

NLEX Corporation, where the Bank has a 12% 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 company's other shareholders are Metro Pacific Tollways Development Corporation, Egis Projects S.A. of France, reputedly the world's biggest tollways operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation, the state-owned company that holds the franchise for the operation of the expressway.

Taal Land, Inc.

Taal Land, Inc. is 33% owned by the Bank. It owns 25% of Jaka Tagaytay, developer of the Splendido resort.

NorthPine Land, Inc.

NorthPine Land Incorporated, where the Bank holds a 20% interest, is a real estate company involved in horizontal development targeting the middle-income to high-end housing market. Current projects are located in Cavite, Laguna and Rizal. The other shareholders of the company are Hong Kong Land, Inc., San Miguel Properties, Inc. and Metrobank.

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 last 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 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.

BDO Remit International Holdings B.V. (formerly CBN Grupo International Holdings B.V.)

BDO Remit International Holdings B.V. 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 ₱31.6 billion of cash and ₱1,789.6 billion of short-term deposits with maturities of less than one year as of March 31, 2017. 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 ₱221.5 billion, ₱225.8 billion, ₱269.0 billion and ₱298.4 billion, respectively, as of December 31, 2014, 2015, 2016 and March 31, 2017, ₱16.9 billion, ₱31.9 billion, ₱60.7 billion and ₱34.5 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 ₱39.2 billion, ₱52.0 billion, ₱73.4 billion and ₱24.1 billion as of December 31, 2014, 2015, 2016 and March 31, 2017, respectively. In addition, the Bank manages liquidity by maintaining a loan portfolio with a sufficient proportion of short-term loans. As of March 31, 2017, ₱511.3 billion, or 32.5%, of the Bank's loans and other receivables comprised loans with remaining maturities of one year or less, including past-due loans.

Interest Rate Risk Management

A critical element of the Bank's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Bank's net interest income. The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of 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 March 31, 2017:

	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................................	9	-	-	-	31,542	31,551
Due from BSP/other banks...............................	98,074	1,098	599	-	318,908	418,679
Trading and investment securities.........................	14,359	10,676	158,356	99,100	15,942	298,433
Loans and other receivables......................	764,001	142,759	410,446	248,987	-	1,566,193
Other resources	-	-	-	-	81,014	81,014
Total Resources	876,443	154,533	569,401	348,087	447,406	2,395,870
Liabilities and Equity:						
Deposit liabilities	372,950	67,834	98,123	17,556	1,371,643	1,928,106
Bills payable and subordinated debt	32,339	8,278	40,552	10,030	580	91,779
Other liabilities	1,617	1,125	4,236	38	86,608	93,624
Total Liabilities	406,906	77,237	142,911	27,624	1,458,831	2,113,509

	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)				
Equity	-	-	-	-	282,361	282,361
Total Liabilities and Equity	406,906	77,237	142,911	27,624	1,741,192	2,395,870
On-book gap	469,537	77,296	426,490	320,463	(1,293,786)	-
Cumulative on-book gap	469,537	546,833	973,323	1,293,786	-	-

(1) *Customer deposits maturing in one month reflect Philippine market characteristic of large numbers of short-term deposits that are generally re-deposited.*

Credit Risk Management

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

The RMG undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The RMG performs risk ratings for corporate accounts and assists the design and development of scorecards for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the RMC. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The RMG reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Market Risk Management

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities and derivatives. The Bank manages its risk by identifying, 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, 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 March 31, 2017, the Bank's net foreign exchange exposure was US$21.3 million inclusive of the foreign exchange position of the Bank's subsidiaries.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

EMPLOYEES

As at March 31, 2017, the Bank employed a total of 31,620 people, 14,218 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 National Union of Bank Employees - 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 January 24, 2014 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, 2014, 2015, 2016 and for the three months ended March 31, 2017 were ₱18.1 billion, ₱21.1 billion, ₱24.7 billion and ₱5.1 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 at December 31, 2016, the fair value of the retirement plan assets of the Bank was ₱21.9 billion and the present value of the obligation was at ₱21.1 billion. After expenses and contributions made relative to the Bank's retirement fund, the Bank recognized a retirement benefit asset of ₱0.7 billion for the year.

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 March 31, 2017:

Name	Position	No. of Years as Director
Teresita T. Sy	Chairperson	40
Jesus A. Jacinto, Jr.	Vice Chairman	21
Christopher A. Bell-Knight	Director	first term: 5; 2nd term: 3
Jose F. Buenaventura	Independent Director	4
Jones M. Castro, Jr.	Independent Director	4
Dioscoro I. Ramos	IndependentDirector	eight months
Antonio C. Pacis	Director	12
Josefina N. Tan	Director	first term: 4; second term: 9
Nestor V. Tan	Director/President and CEO	18
Jimmy T. Tang	Independent Director	33
Gilberto C. Teodoro, Jr.	Independent Director	3

Teresita T. Sy, Filipino, is the Chairperson of the Bank and was first elected to the Board in 1977, and she currently serves as the Chairperson of the Board. Concurrently, she serves as Chairperson and/or Director of various subsidiaries and affiliates of BDO: BDO Private Bank, Inc., BDO Leasing & Finance, Inc., BDO

Capital & Investment Corporation, BDO Foundation, Inc., BDO Life Assurance Holdings corporation (formerly Generali Pilipinas Holding Company, Inc.) and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.).. Ms. Sy also serves as Adviser to the board of Directors of One Network Bank, Inc. (A Rural Bank).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and adviser to the Board of SM Prime Holdings, Inc. (PLC). She also sits as Chairperson, Vice Chairperson and/or Director of the following companies: Multi-Realty Development Corporation, Belleshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc. and First Asia Realty Development Corp.

Jesus A. Jacinto, Jr., 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.

Nestor V. Tan, Filipino, is the President and CEO of BDO Unibank. He was elected to the Board of Directors on June 27, 1998. Concurrently, he holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Leasing and Finance, Inc. (PLC), BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Holdings Corp. (formerly Generali Pilipinas Holding Company), BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc., One Network Bank, Inc. (A Rural Bank), BancNet, Philippine Dealings System Holdings Corp. and RBB Micro Finance Foundation. He is a Trustee of BDO Foundation, Inc., the De La Salle University Board of Advisors, and the Asian Institute of Management. At present, he is the Director of the Asian School of Business & Technology, and serves as President and Director of the Bankers Association of the Philippines. Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London.

Christopher A. Bell-Knight, 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 thirty-five (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.

Jose F. Buenaventura, Filipino, was elected Independent Director of BDO Unibank on April 19, 2013. Since 1976, he has been 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 Director and Corporate Secretary of 2B3C Foundation, Inc. and Peter Paul Philippines Corporation. He sits on the Boards of Directors of the following companies: BDO Securities corporation (Independent Director), Capital Managers and Advisors, Inc., Cebu Air, Inc. (PLC), GROW, Inc., GROW Holdings, Inc., La Concha Land Investments Corporation, Melco Crown (Philippines) Resorts Corporation, Philippine First Insurance Co., Inc., PhilPlans First, Inc., Techzone Philippines, Inc., The Country Club, Inc., Total Consolidated Asset Management, Inc., and Turner Entertainment Manila, Inc.

Jones M. Castro, Jr., 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.

Dioscoro I. Ramos, Filipino, was elected Director of the Bank in January 2016. Since 2011, Mr. Ramos has been the Chief Investment Officer of RY& S Investments Ltd., Hong Kong since 2011. A CPA, 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.

Antonio C. Pacis, Filipino, was elected Director of BDO in June 2004. and previously served as director of BDO Capital & Investment Corporation. 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.

Josefina N. Tan, 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.

Jimmy T. Tang, 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 (7) years.

Gilberto C. Teodoro, Jr., Filipino, was elected Independent Director of BDO on April 25, 2014. He is the Chairman of Sagittarius Mines, Inc. and Indophil Resources Philippines, Inc. He was formerly Chairman of Suricon Resources Corporation and PNP Foundation, Inc. He is also a member of the Board of Directors of Philippine Geothermal Production Company, Inc. and Canlubang Sugar Estate. He served as Secretary of National Defense from 2007 to 2009 and was a member of the Philippine House of Representatives from 1998 to 2007. He is well-trained in litigation and was involved in a wide range of issues -- constitutional, corporate, criminal, civil, and administrative -- and in pro-bono work to assist various indigent litigants from 1990 to 1997. 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 March 31, 2017.

Name	No. of Shares	% of Total Shares
Teresita T. Sy	394,947	0.01%
Jesus A. Jacinto, Jr.	274,666	0.00%
Nestor V. Tan	12,086,570	0.28%
Christopher A. Bell-Knight	123	0.00%
Jose F. Buenaventura (Independent Director)	1	0.00%
Jones M. Castro, Jr. (Independent Director)	1	0.00%
Dioscoro I. Ramos (Independent Director)	179,440	0.00%
Antonio C. Pacis	4,230	0.00%
Josefina N. Tan	496,458	0.01%
Jimmy T. Tang (Independent Director)	17,605	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 December 31, 2014, 2015, 2016 and for the three months ended March 31, 2017 were ₱26.1 million, ₱30.6 million, ₱31.5 million and ₱7.9 million, respectively.

Loans from the Bank to Directors was at ₱1.9 million as of December 31, 2014, and nil as of December 31, 2015, 2016 and March 31, 2017. 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	**Position**
Nestor V. Tan…………………………………	President, CEO and Director
Walter C. Wassmer	Senior Executive Vice President, Institutional Banking
Jaime C. Yu	Senior Executive Vice President, Branch Banking
Ador A. Abrogena	Executive Vice President, Trust and Investments
Anthony Q. Chua……………………………..	Executive Vice President, Global Operations
Lucy Co Dy	Executive Vice President, Comptrollership
Pedro M. Florescio III	Executive Vice President, Treasury
Eduardo V. Francisco	Executive Vice President, President/Director — BDO Capital & Investment Corporation
Ricardo V. Martin	Executive Vice President, Information Technology
Edwin Romualdo G. Reyes	Executive Vice President, Transaction Banking
Rolando C. Tanchanco	Executive Vice President, Consumer Lending
Dennis B. Velasquez	Executive Vice President, Central Operations
Evelyn L. Villanueva	Executive Vice President, Risk Management
Albert S. Yeo…………………………………	President, BDO Private Bank, Inc. (effective April 17, 2017, replacing Josefina N. Tan)
Alvin C. Go	Senior Vice President, Legal Services
Roberto E. Lapid.	President, BDO Leasing and Finance, Inc.
Maria Cecilia G. Fonacier……………………	Senior Vice President, Marketing Communications
Ramon T. Militar………………………………	Officer in Charge, One Network Bank
Estrellita V. Ong	Senior Vice President, Internal Audit
Luis S. Reyes, Jr.	Senior Vice President, Investor Relations and Corporate Planning
Evelyn C. Salagubang	Senior Vice President, Human Resources
Maria Theresa L. Tan	Senior Vice President, General Manager, BDO Insurance Brokers, Inc.
Federico P. Tancongco	Senior Vice President, Corporate Compliance (effective July 1, 2017, replacing Rebecca S. Torres)
Renato Vergel de Dios	Chief Executive Officer and Director, BDO Life

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.

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. It is vested by the Board with the following authority: a) Review and approve the audit scope and frequency, and the annual internal audit plan; b) Provide oversight on the Internal Audit Department and appointment of the Chief Internal Auditor as well as the Bank's independent external auditor, the terms and conditions of its engagement and removal of which only the independent and nonexecutive directors should decide; c) Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system, including financial, operational and compliance controls and risk management annually; d) Receive and review reports of internal and external auditors, the Chief Compliance Officer, and regulatory agencies, where applicable, and shall address all issues and concerns from auditors expeditiously and effectively by ensuring that management is taking appropriate corrective actions in a timely manner and take appropriate corrective actions in addressing control and compliance issues with regulatory agencies; e) Review the Bank's quarterly, semi-annual, and annual financial statements before submission to the Board and ensure that no revisions to the Bank's financial statements are implemented for reasons other than mandated changes in accounting practices; f) Review and update the Audit Committee Charter at least annually, investigate any matter within its term of reference and provide mechanisms for reporting of improprieties and malpractices, independent investigation, follow-up action and subsequent resolution of complaints; g) Ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity. The internal audit activity shall be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results. The committee is chaired by Jose F. Buenaventura. Its other members are Jesus A. Jacinto, Jr., Jones M. Castro, Jr. and Jimmy T. Tang with Corazon S. de la Paz-Bernardo as adviser.

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 using the Revised Board of Directors and Peer Evaluation Survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The committee is chaired by Gilberto C. Teodoro, Jr.. Its other members are Jones M. Castro, Jr. and Jimmy T. Tang.

Nominations Committee. The Nomination Committee leads the process for identifying and makes recommendations to the Board on, candidates for appointment as Directors of the bank as well as those other positions requiring appointment by the Board of Directors, giving full consideration to succession planning and the leadership needs of the Group. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Bank's directions to fill the gaps. It also makes recommendations to the Board on the composition and chairmanship of the various committees. It keeps under review 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 makes recommendations to the Board with regard to any changes. The committee is chaired by Jimmy T. Tang. Its other members are Jose F. Buenaventura and Gilberto C. Teodoro, Jr..

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 and Dioscoro I. Ramos as members and Christopher A. Bell-Knight as adviser.

Trust Committee. The Trust Committee reviews and approves transactions between trust and/or fiduciary accounts, to accept and close trust and other fiduciary accounts, and to approve the investment, reinvestment and disposition of funds or property. It evaluates trust and other fiduciary accounts at least once a year. In addition, it also reviews the Trust and Investment Group's overall performance, profile of funds and accountabilities under its management, industry position, and the risk management reports. It also approves offering of new products and services, establishment and renewal of lines and limits with financial institutions, and investment outlets and counterparties. The committee is chaired by Antonio C. Pacis. Its other members are Jose F. Buenaventura, Christopher A. Bell-Knight, Nestor V. Tan, and Ador A. Abrogena with Dioscoro I. Ramos as adviser.

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 Dioscoro I. Ramos. Its other members are Jimmy T. Tang and Jones M. Castro, Jr., with Jesus A. Jacinto, Jr. as adviser.

In 2015, the Bank was among the recipients of the inaugural ASEAN Corporate Governance Awards Top 50 ASEAN Publicly Listed Companies, a recognition given to companies that seriously upholds good corporate governance. Corporate Governance Asia also recognised included the Bank in its list of Asia's Best CSR, Best Investor Relations Company and Best Environmental Responsibility in its 6th Asian Excellence Awards held in June 2016.

PRINCIPAL SHAREHOLDERS

There has been no material change regarding control of the Bank and its relationship with the SM Group since December 31, 2016, 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 at March 31, 2017:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.09%
Multi-Realty Development Corporation	291,513,036	6.68%
Sybase Equity Investments Corporation	241,059,512	5.52%
TOTAL PRINCIPAL SHAREHOLDERS	**2,283,503,197**	**52.29%**

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 at March 31, 2017:

Name of Shareholder	No. of Shares	% of Total Shares
SM Investments Corporation	1,750,930,649	40.09%
Multi-Realty Development Corporation	291,513,036	6.68%
Sybase Equity Investments Corporation	241,059,512	5.52%
SM Prime Holdings, Inc. (formerly SM Land)	90,024,395	2.06%
Sub-total SM Group corporations	2,373,527,592	54.35%
Sub-total Sy family members	1,821,733	0.04%
Other Affiliated Entities	6,186,419	0.14%
TOTAL SM GROUP	**2,381,535,744**	**54.53%**

PHILIPPINE TAXATION

Following is a general description of certain Philippine tax aspects of investment by prospective CD Holders. This discussion is based upon Philippine tax laws, in particular the Tax Code, its implementing regulations and rulings in effect at the date of this Offering Circular. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective CD Holders.

The tax treatment of a prospective CD Holder may vary depending on such CD Holder's particular situation and certain prospective CD Holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective CD Holder.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the BDO Series 2017-1 CDs and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the BDO Series 2017-1 CDs under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the BDO Series 2017-1 CDs in such other jurisdictions.

EACH PROSPECTIVE CD HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH CD HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BDO SERIES 2017-1 CDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

TAXATION OF INTEREST INCOME

The BDO Series 2017-1 CDs will be, under current interpretation of the Tax Code, treated as a long-term investment, in particular, as a deposit substitute instrument. Interest income thus earned by the CD Holders shall be taxed as described in the following sections.

Interest income earned by individuals

As a general rule, interest income from deposit substitutes earned by individual citizens of the Philippines, resident aliens and non-resident aliens engaged in trade or business in the Philippines is subject to a final withholding tax at the rate of 20%. The Tax Code and recent BIR issuances, however, provide that long-term deposits or investment certificates earned by the abovementioned individuals are exempt from the 20% final withholding tax where the following requirements are complied with. Specifically, the long-term deposit or investment –

(1) Must be issued to individual citizens (resident or non-resident), resident aliens, or non-resident aliens engaged in trade or business within the Philippines;

(2) Must be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

(3) Must be in the form of savings, common or individual trust fund, deposit substitutes, investment management accounts or other forms which must be prescribed by the BSP;

(4) Must be issued by banks only (not by non-bank financial intermediaries and finance companies);

(5) Must have a maturity of not less than five years;

(6) Must be in denominations of ₱10,000 or other denominations as may be prescribed by the BSP; and

(7) Should not be pre-terminated by the original investor thereof before the fifth year.

(8) Except those specifically exempted by law or regulation, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

The exemption of interest income from long-term investments by the aforementioned individuals is dependent on full compliance with the above requisites, otherwise a final tax of 20% shall be imposed or, if the investment is pre-terminated before maturity, a final tax shall be imposed on the entire income already earned by the holder of the long-term investment at the following rates, on the basis of the holding period of the instrument:

Four years to less than five years – 5%

Three years to less than four years – 12%

Less than three years – 20%

Accordingly, CD Holders who are individual citizens, resident aliens and non-resident aliens engaged in trade and business in the Philippines and who shall hold on to the BDO Series 2017-1 CDs for at least five years shall be exempt from the 20% final withholding tax. Under BIR Revenue Regulations No. 14-2012, transfers or assignments of long-term deposits or investment certificates, such as the BDO Series 2017-1 CDs by the aforesaid individual holders, are considered pre-termination solely for tax purposes. Accordingly, a final tax shall be due on the interest income already earned by the transferor CD Holder (depending on the holding period of such BDO Series 2017-1 CDs), which shall be borne by the CD Holder.

Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%. However, such tax rate may be reduced under an applicable tax treaty.

Interest income earned by corporations

Under the present interpretation of the applicable tax laws, instruments similar to or such as the BDO Series 2017-1 CDs will be treated as deposit substitutes as such term is defined under the Tax Code. Accordingly, interest income earned by domestic and resident foreign corporations from the BDO Series 2017-1 CDs shall be subject to a final withholding tax of 20% of such interest income.

On the other hand, interest income received by a non-resident foreign corporation shall generally be subject to 30% final withholding tax effective 1 January 2009. This rate may also be reduced under an applicable tax treaty.

Interest income earned by trusts

A trust is generally taxed in the same way as an individual pursuant to the Tax Code which provides that the tax imposed upon individuals shall apply to the income of any kind of property held in trust (except qualifying employee's trust considered tax-exempt). Accordingly, since trusts are, for tax purposes, treated as an individual, interest income earned by trusts may be exempt from the 20% final withholding tax if the conditions on tax exemption of long-term investments discussed above are complied with.

The above rule applies, however, only where the trust is irrevocable. In the case of revocable trusts, interest income from investments made by revocable trusts may be exempt from the 20% final withholding tax only upon satisfaction of the following conditions:

(1) The grantor / trustor is an individual;

(2) The instrument in which the revocable trust invests in qualifies as a long-term deposit or investment certificate; and

(3) The conditions for tax exemption of interest income from long-term investments discussed above are complied with.

Revenue Memorandum Circular No. 7-2015 reiterates the tax treatment of interest income derived from Long-Term Deposit or Investment Certificates as described in Revenue Regulations No. 14-2012 and clarified in Revenue Memorandum Circular Nos. 77-2012 and 81-2012. For interest income derived by individuals investing in common or individual trust funds or investment management accounts to be exempt from income tax, the following additional characteristics/conditions must all be present:

(1) The investment of the individual investor in the common or individual trust fund or investment management account must be held/managed by the bank for at least five (5) years. The term "bank" refers to banks duly licensed as such by the BSP;

(2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22(FF) of the Tax Code, as well as the requirements above; and

(3) The common or individual trust or investment management account must hold on to such underlying investment for at least five (5) years.

The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the BDO Series 2017-1 CDs may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual CD Holders to avail of the tax-exempt nature of the BDO Series 2017-1 CDs in accordance with RR 14-2012. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the BDO Series 2017-1 CDs based on current BSP rules.

Tax-exempt persons

All sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission to the Registrar by the CD Holder claiming the exemption of reasonable evidence of such exemption to the Registrar.

DOCUMENTARY STAMP TAXES

The Tax Code imposes a documentary stamp tax on all bonds, loan agreements and promissory notes at the rate of ₱1.00 on every ₱200, or fractional part thereof, of the face value of such securities. The Bank has undertaken to pay the documentary stamp tax on the issuance of the BDO Series 2017-1 CDs.

There is currently no documentary stamp tax due on a subsequent sale or disposition of the BDO Series 2017-1 CDs.

TAXATION ON GAINS OR LOSSES UPON THE SALE OR OTHER DISPOSITION OF THE BDO SERIES 2017-1 CDS

A CD Holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of the BDO Series 2017-1 CDs in an amount equal to the difference between the amount realized from such disposition and such CD Holder's base cost in the LTNCD. Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) will not be subject to income tax. Since the BDO Series 2017-1 CDs have a maturity of more than five years from the date of issuance, any gain realized by a CD Holder from the sale of the BDO Series 2017-1 CDs will not be subject to Philippine income tax.

VALUE-ADDED TAX AND GROSS RECEIPTS TAX

At issuance, no Value-Added Tax ("VAT") shall be imposable upon the BDO Series 2017-1 CDs. Subsequent transfers shall similarly be free of VAT, unless the CD Holder is a dealer in securities. In that instance, the CD Holder shall be liable to pay 12% VAT on the gross income derived from the trading of the BDO Series 2017-1 CDs.

Under Republic Act No. 9238, services rendered in the Philippines by, among others, banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies) are exempted from the coverage of the VAT. The exemption, which took effect retroactively on 1 January 2004, reverts to the application of the gross receipts tax ("GRT") regime on services rendered by banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies). Rates of GRT shall be as follows:

(1) Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions:

(a) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less – 5%

Maturity period is more than five years – 1%

(b) On dividends and equity shares in net income of subsidiaries – 0%

(c) On royalties, rentals of real or personal property, profits from exchange and all other items treated as gross income under the Tax Code – 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments – 7%

(2) Other Non-Bank Financial Intermediaries:

(a) On interest, commission, discounts and all other items treated as gross income under the Tax Code – 5%

(b) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less – 5%

Maturity period is more than five years – 1%

ESTATE AND DONOR'S TAX

The transfer of the BDO Series 2017-1 CDs by a decedent to his heirs, whether or not such decedent was residing in the Philippines, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20% if the net estate is over ₽200,000.

CD Holders, whether or not citizens or residents of the Philippines, will be subject to donor's tax upon the donation of the BDO Series 2017-1 CDs to strangers at a flat rate of 30% of the net gifts. A "stranger" is defined as any person who is not a brother, sister (whether by whole- or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₽100,000.

The estate tax, as well as the donor's tax in respect of the BDO Series 2017-1 CDs, shall not be collected if: (a) the deceased at the time of his death or 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) the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation 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

The tax treatment of non-resident CD Holders 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 Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines

PHILIPPINE BANKING INDUSTRY

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as of March 31, 2017, the commercial banking sector, comprising universal and commercial banks, consisted of 42 banks, of which 21 were universal banks and 21 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 21 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 14 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 at March 31, 2017, there were 59 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 at March 31, 2017, there were 498 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 Al-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 at September 30, 2014, there were 14 foreign banks with branches and two foreign banks with subsidiariesin the Philippines, and as at September 30, 2014, they accounted for 11.5% of the total resources of the Philippine banking system. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be 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 domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (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 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 sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as at March 31, 2017:

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.	513,579	282,361	2,395,870	1,566,193	1,928,106	1,126
Metropolitan Bank & Trust Co......	254,414	210,490	1,923,999	1,102,016	1,430,339	959
Bank of the Philippine Islands......	397,624	178,482	1,559,464	1,032,468	1,437,673	838
Philippine National Bank	69,077	111,719	784,382	432,303	590,268	679
China Banking Corp....................	101,176	64,912	620,399	371,289	530,520	548

Notes:
1 Market Capitalization as at 31 March 2017.
2 Financial data taken from each bank's respective financial statements as at 31 March 2017. Includes interests in subsidiaries and allied undertakings.
3 Number of branches was provided by each of the respective banks as at 31 March 2017.

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 toerance 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.1
The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (REST) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 (CET1) capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all

[1] http://www.philstar.com/business/2014/01/28/1283657/banks-tighten-real-estate-loan-norms

times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

The Monetary Board, in its media release dated 20 October 2014[2], 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 Capitalization	Reviewed Minimum Capitalization
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
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million

[2] http://www.bsp.gov.ph/publications/media.asp?id=3561

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
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

* Inclusive of Head Office
** With no distinction for network size

BSP will reportedly issue a circular to effect the foregoing amendment to the minimum capital requirement. According to an article[3], this amendment will take effect in November 2014.

[3] http://www.philippinestoday.net/archives/16770

PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular, the Terms and Conditions included herein, and the related Contracts regarding the offer, maintenance, trade and settlement of the BDO Series 2017-1 CDs. Prospective CD Holders should read this entire Offering Circular, the Terms and Conditions, and the related Contracts fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular, then the more detailed portions and/or Terms and Conditions, and/or the Contracts, as the case may be, shall at all times prevail.

OFFERING PROCEDURES

Pursuant to the Issue Arrangement and Placement Agreement, Registry and Paying Agency Agreement, and Market Maker Agreement (the "Agreements") entered into by the Bank with the relevant counterparties, the BDO Series 2017-1 CDs shall be offered for sale through the Joint Lead Arrangers, as defined in the Terms and Conditions, and Selling Agents.

The Joint Lead Arrangers are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the BDO Series 2017-1 CDs and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Joint Lead Arrangers in connection therewith. The Joint Lead Arrangers are third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent is likewise a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine its independence.

The following is a summary of the procedures to be adopted among the parties and the prospective CD Holders and is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Contracts.

Prior to the Offer Period

The Bank shall enter into the Registry and Paying Agency Agreement with the Registrar, the Market Maker Agreement with the Market Maker, and the Issue Arrangement and Placement Agreement with the Joint Lead Arrangers, as defined in the Terms and Conditions, and Selling Agents.

The Offer Period

During the relevant Offer Period, the Bank, through the Joint Lead Arrangers and Selling Agents, shall solicit subscriptions to the BDO Series 2017-1 CDs from Eligible CD Holders. Prospective CD Holders will be required to complete an application to purchase (the "Application to Purchase") which shall be provided by the Joint Lead Arrangers and the Selling Agents, and submit the duly executed Applications to Purchase and other documentary requirements to the Selling Agents from whom the Applications to Purchase were obtained on or before 5:00 p.m. on the last day of the Offer Period. There shall be no limitation on the number of BDO Series 2017-1 CDs that a prospective CD Holder may apply for, although the BDO Series 2017-1 CDs will be issued in minimum denominations of ₱100,000.00 and in integral multiples of ₱50,000.00 thereafter.

Only duly executed Applications to Purchase which are accompanied by check payments drawn against any bank in Metro Manila acceptable to the Joint Lead Arrangers and payable to the Bank, or are covered by appropriate debit instructions, covering the purchase price for the BDO Series 2017-1 CDs applied for, shall be accepted by the Joint Lead Arrangers or Selling Agents. Such acceptance will likewise be contingent on the submission of other documentary requirements prescribed by the Joint Lead Arrangers, including, without limitation, evidence of the prospective CD Holder's tax status. Completion of the Application to Purchase shall involve an instruction and authority by the prospective CD Holder to the Selling Agents to execute any application form or other documents and generally do all such other things and acts as the Bank or the Selling Agents may consider necessary or desirable to effect registration of the BDO Series 2017-1 CDs in the name of the prospective CD Holder.

The Allocation Period

The Bank, together with the Joint Lead Arrangers, reserves the right to accept, reject, scale down or reallocate any BDO Series 2017-1 CDs applied for. The Bank, in consultation with the Joint Lead Arrangers, shall indicate or cause to be indicated in writing its acceptance of all Applications to Purchase which are not rejected together with the date of acceptance and, where the amount of BDO Series 2017-1 CDs applied for is scaled down, the amount thereof accepted. Applications to Purchase, which the Bank fails to reject or scale down within the period agreed upon with the Joint Lead Arrangers, shall be considered accepted by the Bank. The Bank shall, in consultation with the Joint Lead Arrangers, likewise indicate or cause to be indicated in writing its rejection of the pertinent Applications to Purchase indicating, if practicable, its reasons for rejection. Applications to Purchase in respect of which check payments are dishonored upon presentment or which do not comply with the terms of the Offer or which are deficient in any material information required therein, shall be rejected.

In the event an Application to Purchase is rejected or the amount of the BDO Series 2017-1 CDs applied for is scaled down, the Selling Agent concerned shall notify the prospective CD Holders concerned that their Application to Purchase has been rejected or scaled down and that they are entitled to a refund of their payments in full (in case of a rejection) or in a proportionate sum (in case of a scale down), in either case without any interest whatsoever. Refunds, in whole or in part, of payments for any Applications to Purchase which are not accepted or which are scaled down shall be made available for pick-up at the office of the Selling Agent who notified the said prospective CD Holder of the rejection or scaling down of its Application to Purchase within 5 Business Days from the Issue Date. Refund checks, which remain unclaimed after 15 Business Days from the Issue Date, shall then be mailed at the risk of the prospective CD Holder to the address specified by such prospective CD Holder in his Application to Purchase.

Issue Date

The Applications to Purchase, upon acceptance by the Bank, shall ipso facto constitute duly executed purchase agreements covering the BDO Series 2017-1 CDs purchased thereunder, valid and binding on the prospective CD Holders concerned and the Bank. As such, they may not be unilaterally revoked or cancelled by the prospective CD Holder, in full or in part, and the rights and privileges pertaining thereto are non-transferable, until after the issuance of the Registry Confirmation by the Registrar.

At least 2 Business Days prior to the Issue Date, the relevant Selling Agent shall issue a written advice ("Purchase Advice") to successful prospective CD Holders confirming the acceptance of their offer to purchase BDO Series 2017-1 CDs and consequent ownership thereof and stating the details, as well as a summary of the terms and conditions of the sale of BDO Series 2017-1 CDs. The Selling Agents shall secure an acknowledgment from each CD Holder on its receipt of said Purchase Advice.

The Registrar shall, within 7 Business Days from the Issue Date, issue and deliver an original copy of the Registry Confirmation to the CD Holder at their mailing addresses as indicated in the Final Sales Report submitted by the CD Holder's Selling Agent, in accordance with the terms of the Registry and Paying Agency Agreement.

Transactions in the secondary market

All secondary trading of the BDO Series 2017-1 CDs shall be coursed through the trading participants of PDEx for execution in the PDEx trading platform and in accordance with the PDEx trading rules. Transfers will be subject to the payment by the CD Holder of fees to the trading participants or applicable fees in connection with trading on PDEx and the Registrar.Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including, but not limited to, the guidelines on minimum trading lots, minimum denominations and record dates, among others.

Subject to Condition 15 of the Terms and Conditions, a transfer or assignment of BDO Series 2017-1 CDs may generally be done at any time. However, that a transfer of BDO Series 2017-1 CDs which will result in a change in the tax treatment of the interest income due thereon (including a transfer or assignment which is treated by the Bank as a pre-termination solely for withholding tax purposes) and which is sought to be made on a day other than an Interest Payment Date shall further be subject to Condition 14 of the Terms and Conditions.

The following documents, in form and substance acceptable to the Registrar, must be presented to the Registrar to register any transfer or assignment of BDO Series 2017-1 CDs:

- copies of the Purchase Advice which shall be issued by the Market Makers or the PDEx Trading Participant concerned to such transferee CD Holder to evidence the transfer or assignment of such BDO Series 2017-1 CDs;
- the relevant Trade-Related Transfer Form or Non-Trade Related Transfer Form, as the case may be, duly accomplished and endorsed by the Market Makers or the PDEx Trading Participant;
- the Written Consent of the Transferee CD Holder;
- the Investor Registration Form;
- Tax Exempt/Treaty Documents, if applicable; and
- such other documents as may be reasonably required by the Registrar.

Transfers or assignments of the BDO Series 2017-1 CDs made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar and Paying Agent.

Payment of interest and principal

The Paying Agent shall, pay or cause to be paid on behalf of the Bank on or before 12:00 p.m. on each relevant Payment Date the amounts due in respect of the BDO Series 2017-1 CDs through a direct credit of the proper amounts, net of taxes and fees (if any) to the account of the designated Cash Settlement Banks of the CD Holders for onward remittance to the CD Holders.

Schedule of Registry Fees

The Registrar shall be entitled to charge the CD Holders and/or their counterparties such fees as the Registrar shall prescribe in connection with the services that the Registrar shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of records of the CD Holders in the Registry, the issuance, cancellation and replacement of any Registry Confirmation and transfers of the BDO Series 2017-1 CDs, which fees may be deducted from the interest payments due to the relevant CD Holders. The Registry will charge the following fees to the CD Holders:

Fees charged for primary market transactions

- ₱75 account opening fee
- Account maintenance fee of 0.03% p.a. will be deducted on each interest payment date

Fees charged for secondary market transactions

- ₱100 transfer fee (for each of the transferee and transferor CD Holders)
- ₱100 account opening fee for each new securities account
- Account maintenance fee of 0.03% p.a. will be deducted on each interest payment date
- Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a CD Holder

Other fees

- ₱200 will be charged for each application of a certification request of holding
- ₱50 will be charged for each statement requested outside of the quarterly statements of account released
- Replacement Registry Confirmations may likewise be issued, subject to the fulfillment of certain terms and conditions, for ₱50

In the event that the Registrar is prohibited by law or regulation to charge the CD Holders and/or their counterparties such fees in connection with its services, the Bank and the Registrar shall agree on such other arrangements in order for the Registrar to be fully compensated for the services it performs pursuant to the Registry and Paying Agency Agreement executed between them.

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BDO Corporate Center
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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as the BDO Unibank Group) and BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

(a) Proper Valuation of Loans and Other Receivables

Description of the Matter

Under Philippine Accounting Standards (PAS) 39, *Financial Instrument: Recognition and Measurement*, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

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

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

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

How the Matter was Addressed in the Audit

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

- testing of controls, as assisted by our own IT specialists, over the approval, recording and monitoring of loans and other receivables, loan classification based on credit ratings, and the recording and calculating of the allowance for impairment;
- obtaining an understanding of BDO Unibank Group's and the Parent Bank's credit policy and loan impairment process;

- checking and evaluating the methodologies, inputs and assumptions used by BDO Unibank Group and the Parent Bank in performing both individual and collective impairment assessment in accordance with PAS 39;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts;
- on selected loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection on selected non-performing loans;
- for loan accounts assessed individually, recomputing the recoverable amount determined by BDO Unibank Group and the Parent Bank and comparing it against the carrying value as of December 31, 2016;
- evaluating the suitability of delinquency bucket used by BDO Unibank Group and the Parent Bank by comparing the actual payment history and agreed payment schedule for selected loan accounts; and,
- assessing the reasonableness of each loan impairment factor through recomputation using the historical and current data of BDO Unibank Group and the Parent Bank.

(b) Valuation of Financial Instruments

Description of the Matter

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

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

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate;
- recomputing the fair values based on the inputs and compared with the market values used by BDO Unibank Group and the Parent Bank;

- testing of controls over the valuation process of BDO Unibank Group and the Parent Bank on financial instruments, particularly the measurement of derivative valuation adjustments;
- checking the formulas used in fair market valuation; and,
- testing the inputs against reliable market sources, such as Bloomberg.

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

Description of the Matter

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

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

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

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

(a) Goodwill

Description of the Matter

Under PFRS, BDO Unibank Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of P3,046 million as of December 31, 2016 is material to BDO Unibank Group's financial statements and the management's process in assessing recoverability of goodwill, which is based on market participant approach, is considered complex and involves critical management judgment. In using the market participant approach, BDO Unibank Group determined the fair market value of the reporting unit where the goodwill was allocated, such as One Network Bank (ONB), a subsidiary, by deriving market multiples for the reporting unit based on assumptions that potential market participants would use in establishing a bid price for the reporting unit. This approach therefore assumed that strategic initiatives will result in improvements in operational performance in the event of purchase.

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

How the Matter was Addressed in the Audit

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

(b) Accounting for Business Combination

Description of the Matter

In 2015, BDO Unibank Group has an outstanding 40% equity investment in BDO Life Assurance Holdings Corp. (BDO Life). On June 22, 2016, the Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life for cash consideration and other charges amounting to P2,236 million, making the latter a wholly-owned subsidiary of the former. BDO Unibank Group applied the acquisition method to account for this business combination achieved in stages. In accordance with PFRS 3, *Business Combination*, BDO Unibank Group recognized the negative goodwill or gain on acquisition amounting to P1,586 million from the excess of the acquisition-date fair value of the identifiable resources acquired and the liabilities assumed from BDO Life over the aggregate of the acquisition-date fair values of consideration transferred and the previously-held equity interest. Such amount is considered material to BDO Unibank Group's financial statements. Moreover, the transaction involved remeasurement of BDO Unibank Group's previously held equity interest in BDO Life and the valuation of its net assets at their acquisition-date fair values where significant estimates were applied. The remeasurement of the previously-held interest in BDO Life at its acquisition-date fair value resulted in the recognition of fair value gain amounting to P628 million. We, therefore, identified accounting for this business combination as a significant matter to our audit.

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

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

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

III. Key Audit Matters on the Parent Bank Financial Statements

(a) Effects of Amendments to an Accounting Standard

Description of the Matter

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

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

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

How the Matter was Addressed in the Audit

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

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BDO Unibank Group's and the Parent Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 29 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2016 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 5908631, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-3 (until Nov. 29, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2017

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(With Corresponding Figures as of January 1, 2015)
(Amounts in Millions of Philippine Pesos)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos Except Per Share Data)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2016	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2016	Parent Bank 2015 (As Restated - see Note 2)	Parent Bank 2014 (As Restated - see Note 2)
NET PROFIT		**P 26,102**	P 25,055	P 22,828	**P 23,916**	P 24,994	P 22,804
OTHER COMPREHENSIVE INCOME							
Items that are or will be reclassified subsequently to profit or loss:							
Unrealized losses on available-for-sale (AFS) securities, net of tax	9	**(943)**	(2,457)	(2,440)	**899**	(1,498)	(2,846)
Transfer of realized losses (gains) on disposed AFS securities to statements of income, net of tax		**(2,959)**	(2,711)	2,545	**(2,355)**	(3,278)	2,796
Transfer of realized losses on impaired AFS securities to statements of income, net of tax		**346**	1,841	-	**-**	1,841	-
Transfer of amortized unrealized fair value losses on reclassified AFS securities to HTM investments to statements of income		**275**	-	-	**292**	-	-
Net gains (losses) on AFS securities, net of tax		**(3,281)**	(3,327)	105	**(1,164)**	(2,935)	(50)
Translation adjustment related to foreign operations		**78**	19	76	**2**	8	(6)
		(3,203)	(3,308)	181	**(1,162)**	(2,927)	(56)
Items that will not be reclassified to profit or loss:							
Actuarial loss on remeasurement of retirement benefit asset, net of tax	24	**(645)**	(147)	(60)	**(516)**	(186)	(63)
Reversal of revaluation increment		**-**	(19)	-	**-**	(19)	-
		(645)	(166)	(60)	**(516)**	(205)	(63)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method		**1**	(356)	269	**(2,095)**	(414)	497
Total Other Comprehensive Income (Loss), net of tax		**(3,847)**	(3,830)	390	**(3,773)**	(3,546)	378
TOTAL COMPREHENSIVE INCOME		**P 22,255**	P 21,225	P 23,218	**P 20,143**	P 21,448	P 23,182
Attributable to:							
Shareholders of the Parent Bank		**P 22,196**	P 21,179	P 23,184			
Non-controlling Interests		**59**	46	34			
		P 22,255	P 21,225	P 23,218			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group													
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,118	(P 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613
Transactions with owners	20														
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	-	238	-	238
Cash dividends		-	-	-	-	-	(4,716)	-	-	-	-	-	(4,716)	(50)	(4,766)
		47	-	191	-	-	(4,716)	-	-	-	-	-	(4,478)	(50)	(4,528)
Total comprehensive income (loss)		-	-	-	-	-	26,090	(3,297)	(645)	-	47	1	22,196	59	22,255
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	36	-	(36)	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	240	-	(240)	-	-	-	-	-	-	-	-
		-	-	-	276	-	(276)	-	-	-	-	-	-	-	-
Other adjustments	20, 28														
Change in ownership interest in subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	111	111
Consolidation of a new subsidiary		-	-	-	-	-	-	-	-	-	-	84	84	-	84
		-	-	-	-	-	-	-	-	-	-	84	84	111	195
BALANCE AT DECEMBER 31, 2016		**P 36,500**	**P 5,150**	**P 70,127**	**P 2,972**	**P 12**	**P 109,216**	**(P 3,919)**	**(P 4,259)**	**P 1,008**	**(P 13)**	**(P 2)**	**P 216,792**	**P 743**	**P 217,535**
BALANCE AT JANUARY 1, 2015		P 35,808	P 5,150	P 63,908	P 3,454	P 12	P 70,242	P 2,709	(P 3,467)	P 1,027	(P 76)	P 269	P 179,036	P 633	P 179,669
Transactions with owners	20, 28														
Issuance of shares during the year		645	-	6,028	-	-	-	-	-	-	-	-	6,673	14	6,687
Redemption of preferred stocks		-	-	-	-	-	-	-	-	-	-	-	-	(27)	(27)
Cash dividends		-	-	-	-	-	(7,898)	-	-	-	-	-	(7,898)	(43)	(7,941)
		645	-	6,028	-	-	(7,898)	-	-	-	-	-	(1,225)	(56)	(1,281)
Total comprehensive income (loss)		-	-	-	-	-	25,016	(3,331)	(147)	(19)	16	(356)	21,179	46	21,225
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	27	-	(27)	-	-	-	-	-	-	-	-
Reversal of appropriation during the year	20	-	-	-	(1,000)		1,000	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	215	-	(215)	-	-	-	-	-	-	-	-
		-	-	-	(758)	-	758	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,118	(P 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613
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	20	-	-	-	-	-	(7,859)	-	-	-	-	-	(7,859)	(44)	(7,903)
Total comprehensive income (loss)		-	-	-	-	-	22,805	100	(60)	-	70	269	23,184	34	23,218
Transfer from Surplus Free															
Appropriations during the year	20	-	-	-	268	-	(268)	-	-	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	192	-	(192)	-	-	-	-	-	-	-	-
		-	-	-	460	-	(460)	-	-	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		P 35,808	P 5,150	P 63,908	P 3,454	P 12	P 70,242	P 2,709	(P 3,467)	P 1,027	(P 76)	P 269	P 179,036	P 633	P 179,669

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

		Parent Bank										
	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2016												
As previously stated		P 36,453	P 5,150	P 69,917	P 2,028	P 80,141	(P 524)	(P 3,491)	P 1,005	P 10	-	P 190,689
Effect of using equity method	2	-	-	-	-	8,663	-	-	-	-	(89)	8,574
As restated		36,453	5,150	69,917	2,028	88,804	(524)	(3,491)	1,005	10	(89)	199,263
Transactions with owners	20											
Issuance of shares during the year		47	-	191	-	-	-	-	-	-	-	238
Cash dividends		-	-	-	-	(4,716)	-	-	-	-	-	(4,716)
		47	-	191	-	(4,716)	-	-	-	-	-	(4,478)
Total comprehensive income (loss)		-	-	-	-	23,916	(1,164)	(516)	-	2	(2,095)	20,143
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	28	(28)		-	-	-	-	-
Trust reserve	20, 26	-	-	-	182	(182)	-	-	-	-	-	-
		-	-	-	210	(210)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2016		**P 36,500**	**P 5,150**	**P 70,108**	**P 2,238**	**P 107,794**	**(P 1,688)**	**(P 4,007)**	**P 1,005**	**P 12**	**(P 2,184)**	**P 214,928**
BALANCE AT JANUARY 1, 2015												
As previously stated		P 35,808	P 5,150	P 63,889	P 1,832	P 61,716	P 2,411	(P 3,305)	P 1,024	P 2	-	P 168,527
Effect of using equity method	2	-	-	-	-	10,188	-	-	-	-	325	10,513
As restated		35,808	5,150	63,889	1,832	71,904	2,411	(3,305)	1,024	2	325	179,040
Transactions with owners												
Issuance of shares during the year	20, 28	645	-	6,028	-	-	-	-	-	-	-	6,673
Cash dividends	20	-	-	-	-	(7,898)	-	-	-	-	-	(7,898)
		645	-	6,028	-	(7,898)	-	-	-	-	-	(1,225)
Total comprehensive income (loss)		-	-	-	-	24,994	(2,935)	(186)	(19)	8	(414)	21,448
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	25	(25)		-	-	-	-	-
Trust reserve	20, 28	-	-	-	171	(171)	-	-	-	-	-	-
		-	-	-	196	(196)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2015		P 36,453	P 5,150	P 69,917	P 2,028	P 88,804	(P 524)	(P 3,491)	P 1,005	P 10	(P 89)	P 199,263
BALANCE AT JANUARY 1, 2014												
As previously stated		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	-	P 153,708
Effect of using equity method	2	-	-	-	-	10,181	-	-	-	-	(172)	10,009
As restated		35,808	5,150	63,889	1,575	57,216	2,461	(3,242)	1,024	8	(172)	163,717
Transactions with owners												
Cash dividends	20	-	-	-	-	(7,859)	-	-	-	-	-	(7,859)
Total comprehensive income (loss)		-	-	-	-	22,804	(50)	(63)	-	(6)	497	23,182
Transfer from Surplus Free												
Appropriation during the year	20	-	-	-	101	(101)	-	-	-	-	-	-
Trust reserve	20, 26	-	-	-	156	(156)	-	-	-	-	-	-
		-	-	-	257	(257)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2014		P 35,808	P 5,150	P 63,889	P 1,832	P 71,904	P 2,411	(P 3,305)	P 1,024	P 2	P 325	P 179,040

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2016	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2016	Parent Bank 2015 (As Restated - see Note 2)	Parent Bank 2014 (As Restated - see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 32,899	P 30,756	P 27,068	P 29,629	P 29,823	P 26,326
Adjustments for:							
Interest income	21	(82,037)	(72,127)	(63,583)	(76,647)	(68,519)	(60,871)
Interest received		80,887	71,124	62,529	75,720	67,778	60,122
Interest expense	22	16,413	15,166	12,358	14,989	14,238	11,728
Interest paid		(16,344)	(15,188)	(12,496)	(14,969)	(14,344)	(11,855)
Depreciation and amortization	11, 12, 13	4,782	3,961	3,262	3,668	3,085	2,640
Impairment losses	9, 13, 14	3,815	3,000	5,114	3,003	2,709	5,014
Income from acquisition of a subsidiary	28	(2,214)	-	(18)	-	-	-
Share in net profit of subsidiaries and associates	13	(481)	(837)	(652)	(3,516)	(2,276)	(2,368)
Fair value loss (gain)	9	(96)	(121)	(37)	45	(167)	(65)
Operating profit before changes in operating resources and liabilities		37,624	35,734	33,545	31,922	32,327	30,671
Decrease (increase) in financial assets at fair value through profit or loss		1,988	(4,714)	1,076	1,076	66	(1,327)
Increase in loans and other receivables		(248,384)	(188,091)	(216,173)	(241,321)	(231,297)	(200,655)
Decrease (increase) in investment properties		(794)	1,072	(1,377)	(624)	(981)	(1,389)
Decrease (increase) in other resources		(3,612)	(9,496)	(11,000)	2,722	(5,447)	(5,553)
Increase in deposit liabilities		241,312	171,671	147,105	229,972	139,112	147,110
Increase in insurance contract liabilities		2,638	-	-	-	-	-
Increase (decrease) in other liabilities		13,005	(18,308)	18,543	10,423	(13,863)	9,907
Cash generated from (used in) operations		43,777	(12,132)	(28,281)	34,170	(80,083)	(21,236)
Cash paid for income tax		(6,528)	(4,090)	(4,160)	(5,342)	(3,211)	(3,589)
Net Cash From (Used in) Operating Activities		37,249	(16,222)	(32,441)	28,828	(83,294)	(24,825)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from disposals of available-for-sale securities		92,532	449,636	383,247	63,539	493,842	373,079
Acqusitions of available-for-sale securities	9	(77,520)	(453,010)	(377,961)	(40,953)	(437,205)	(360,013)
Acquisitions of held-to-maturity (HTM) investments	9	(49,939)	-	-	(48,139)	-	-
Maturities of HTM investments		12,300	-	-	11,938	-	-
Acquisitions of premises, furniture, fixtures and equipment	11	(5,537)	(6,963)	(5,970)	(3,811)	(4,439)	(4,712)
Acquisition of a subsidiary	28	(2,298)	-	-	(2,298)	-	-
Proceeds from disposals of premises, furniture, fixtures and equipment		144	126	194	30	73	87
Net Cash From (Used in) Investing Activities		(30,318)	(10,211)	(490)	(19,694)	52,271	8,441
CASH FLOWS FROM FINANCING ACTIVITIES							
Dividends paid	19	(4,766)	(7,941)	(7,903)	(4,716)	(7,898)	(7,859)
Net proceeds from (payments of) bills payable		2,983	(2,896)	6,100	(1,093)	(8,250)	2,216
Proceeds from issuance of common stock		238	-	-	238	-	-
Proceeds from issuance of subordinated notes payable	17	-	-	7,023	-	-	7,023
Net Cash From (Used in) Financing Activities		(1,545)	(10,837)	5,220	(5,571)	(16,148)	1,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		P 5,386	(P 37,270)	(P 27,711)	P 3,563	(P 47,171)	(P 15,004)

	Notes	BDO Unibank Group 2016	2015	2014	Parent Bank 2016	2015	2014
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**P 5,386**	(P 37,270)	(P 27,711)	**P 3,563**	(P 47,171)	(P 15,004)
CASH AND CASH EQUIVALENTS ACQUIRED FROM NEW SUBSIDIARY	28	**851**	3,294	-	**-**	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**42,729**	41,342	27,824	**41,767**	41,237	27,736
Due from Bangko Sentral ng Pilipinas	7	**271,808**	269,542	408,383	**260,841**	258,416	384,361
Due from other banks	8	**24,837**	45,621	26,939	**20,944**	43,165	24,655
Securities purchased under reverse repurchase agreement	10	**69,490**	86,173	8,407	**58,431**	86,173	8,407
Foreign currency notes and coins	13	**3,244**	3,406	2,242	**3,243**	3,406	2,242
		412,108	446,084	473,795	**385,226**	432,397	447,401
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**40,909**	42,729	41,342	**39,813**	41,767	41,237
Due from Bangko Sentral ng Pilipinas	7	**318,002**	271,808	269,542	**304,285**	260,841	258,416
Due from other banks	8	**41,794**	24,837	45,621	**33,463**	20,944	43,165
Securities purchased under reverse repurchase agreement	10	**14,302**	69,490	86,173	**7,891**	58,431	86,173
Foreign currency notes and coins	13	**3,338**	3,244	3,406	**3,337**	3,243	3,406
		P 418,345	P 412,108	P 446,084	**P 388,789**	P 385,226	P 432,397

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

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

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

c. On July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of One Network Bank, Inc. (ONB) in exchange for 64,499,890 common shares of the Parent Bank equivalent to P6,685. The acquisition resulted to recognition of additional paid-in capital amounting to P6,028. Goodwill amounted to P2,903 and non-controlling share in equity totalled P14 at the date the Parent Bank's control was established. As of the date of acquisition, total resources and total liabilities of ONB amounted to P28,196 and P24,398, respectively. In 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. Total additional goodwill recognized in 2016 amounted to P4 (see Note 28).

d. On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. executed a Memorandum of Agreement to transfer to the Parent Bank the assets and liabilities of the latter amounting to P2,491 and P7,118, respectively, resulting in the recognition of branch licenses and accounts receivable amounting to P2,640 and P2,000, respectively (see Note 28).

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

Other Information

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Securities and Exchange Commission granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 or until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private, insurance and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stock brokerage, trust and others.

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

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2016, BDO Unibank Group had 1,104 branches (including one foreign branch), 1,955 on-site and 1,700 off-site automated teller machines (ATMs) and 328 cash accept machines (CAMs). As of December 31, 2016, the Parent Bank had 982 branches (including one foreign branch), 1,791 on-site and 1,644 off-site ATMs and 328 CAMs. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.1%, 1.1% and 1.3% of BDO Unibank Group's total revenues in 2016, 2015 and 2014, respectively, and 1.2% of BDO Unibank Group's total resources both as of December 31, 2016 and 2015, respectively. BDO Unibank Group's subsidiaries and associates are shown in Note 13.1.

1.2 Approval of Financial Statements

The financial statements of BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014, and the corresponding figures for the Parent Bank's financial statements as of January 1, 2015) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

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

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

	As Previously Reported	Effects of Using Equity Method	As Restated
December 31, 2015			
Changes in statement of financial position			
Resources –			
Other resources –			
Equity investments - gross	P 23,718	P 8,574	P 32,292
Equity:			
Surplus free	80,141	8,663	88,804
Accumulated share in other comprehensive loss of subsidiaries and associates	-	(89)	(89)
		P 8,574	
Changes in statement of profit or loss and other comprehensive income			
Other operating income:			
Share in net income of subsidiaries and associates	P -	P 2,276	P 2,276
Dividend	4,012	(3,801)	211
Share in other comprehensive loss of subsidiaries and associates	-	(414)	(414)
		(P 1,939)	
Earnings per share (EPS)			
Basic	P 7.25	(P 0.42)	P 6.83
Diluted	7.25	(0.42)	6.83
January 1, 2015			
Changes in statement of financial position			
Resources –			
Other resources –			
Equity investments - gross	P 17,027	P 10,513	P 27,540
Equity:			
Surplus free	61,716	10,188	71,904
Accumulated share in other comprehensive income of subsidiaries and associates	-	325	325
		P 10,513	

	As Previously Reported	Effects of Using Equity Method	As Restated
December 31, 2014			
Changes in statement of profit or loss and other comprehensive income			
Other operating income:			
Share in net income of subsidiaries and associates	P -	P 2,368	P 2,368
Dividend income	2,613	(2,361)	252
Share in other comprehensive income of subsidiaries and associates	-	497	497
		P 504	
Earnings per share (EPS)			
Basic	P 6.27	P -	P 6.27
Diluted	6.27	-	6.27

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2016 that are Relevant to BDO Unibank Group

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

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements

PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

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

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

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

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

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

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

(vi) Annual Improvements to PFRS (2010-2014 Cycle) and PFRS (2012-2014 Cycle) made minor amendments to a number of PFRS. Among the improvements, the following amendments are relevant to BDO Unibank Group but had no material impact on the BDO Unibank Group's financial statements as these amendments merely clarify the existing requirements:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

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

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

(c) Effective Subsequent to 2016 but not Adopted Early

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

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

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

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

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

(v) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 Basis of Consolidation

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

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

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

(a) *Investments in Subsidiaries*

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

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

The acquisition method is applied to account for acquired subsidiaries (see Note 2.12). Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BDO Unibank Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

	Percentage of Ownership		
Subsidiaries	**2016**	2015	2014
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	**-**	98.82%	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	**-**	99.99%	99.99%
Rural Bank			
One Network Bank, Inc. (A Rural Bank) (ONB)	**99.76%**	99.63%	-
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**99.88%**	100%	100%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**99.88%**	100%	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**99.88%**	100%	100%
BDO Nomura Securities, Inc. (BDO Nomura) [previously PCIB Securities, Inc. (PCIB Securities)]	**51.00%**	100%	100%
Armstrong Securities, Inc. (ASI)	**80.00%**	80.00%	80.00%

Subsidiaries	Percentage of Ownership **2016**	2015	2014
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60.00%**	60.00%	60.00%
Insurance Companies			
BDO Life Assurance Holdings Corp. (BDO Life) [previously Generali Pilipinas Holdings Company, Inc. (GPHCI)]	**100%**	40.00%	40.00%
BDO Life Assurance Company, Inc. [previously Generali Pilipinas Life Assurance Company, Inc. (GPLAC)]	**100%**	40.00%	40.00%
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
Express Padala Frankfurt GmbH (EPFG)	**-**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	100%
BDO Remit (Canada) Ltd.	**100%**	100%	100%
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
BDO Remit International Holdings B.V. [previously CBN Grupo International Holdings B.V. (CBN Grupo)]	**96.32%**	60.00%	60.00%
PCIB Europe S.p.A.	**100%**	100%	100%
Others			
PCI Realty Corporation	**100%**	100%	100%

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

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

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

2.4 Segment Reporting

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

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

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

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

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

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

2.5 Financial Assets

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

(a) Classification and Measurement of Financial Assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

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

(i) Financial Assets at FVTPL

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

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

(ii) Loans and Receivables

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

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents, Loans and Other Receivables and certain accounts under Other Resources in the statement of financial position. Cash and cash equivalents consist of cash and other cash items, due from BSP and amounts due from other banks. Loans and other receivables also include receivables from customers and other receivables. Loans and other receivables also includes the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

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

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

(iii) HTM Investments

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

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

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

(iv) AFS Securities

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

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, that is when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

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

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

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

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

(b) *Impairment of Financial Assets*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. BDO Unibank Group recognizes impairment loss based on the category of financial assets as shown in the succeeding pages.

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

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets either individually or collectively. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral.

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

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as Miscellaneous under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

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

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

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

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

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

(ii) Carried at Cost – AFS Financial Assets

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

(iii) Carried at Fair Value – AFS Financial Assets

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

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

(c) Items of Income and Expense Related to Financial Assets

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

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

(d) Derecognition of Financial Assets

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

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

2.6 Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

2.7 Premises, Furniture, Fixtures and Equipment

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

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

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

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

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

Fully depreciated assets are retained in accounts until they are no longer in use and no further change for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.23).

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

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

2.8 Investment Properties

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

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

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.9 Real Properties for Development and Sale

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

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 23).

2.10 Non-current Assets Held for Sale

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

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

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

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

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income (see Note 23).

2.11 Equity Investments

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

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

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

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

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

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

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

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are initially carried at cost and adjusted thereafter for the post-acquisition change in the Parent Bank's share of net assets of the investee, which includes the share of the profit or loss and other comprehensive income reduced by any distribution received from the investment (see Notes 2.1, 2.3 and 2.23). However, when the Parent Bank's share of losses in a subsidiary or associate equals or exceeds its interest in the subsidiary or associate, including any other unsecured receivables, the Parent Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

2.12 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

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

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

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

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

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

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

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

2.13 Prepayments and Other Resources

Prepayments and other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.23).

2.14 Intangible Assets

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

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

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any.

BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.23).

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

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

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

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

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

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

2.15 Financial Liabilities

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

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

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

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

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

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

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

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

  - *Life insurance contract*

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

  - *Insurance contracts with fixed and guaranteed terms*

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

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

  - *Variable unit-linked insurance contracts.*

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

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

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

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

2.16 Offsetting Financial Instruments

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

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

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

2.18 Equity

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

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

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for issuance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 20.5).

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

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

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

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

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

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

Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group (see Note 20.6).

2.19 Related Party Relationships and Transactions

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

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

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

2.20 Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

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

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

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

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

2.21 Provisions and Contingencies

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

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

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

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

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

(b) BDO Unibank Group as Lessee

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

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

2.23 Impairment of Non-financial Assets

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

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

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.24 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

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

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

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

(b) Foreign Currency Translation

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

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

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

ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

iii. All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

2.25 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows (see Note 24):

(a) Post-employment Defined Benefit

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

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Bonus Plans

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

(e) *Employee Stock Option Plan (ESOP)*

BDO Unibank Group has a stock option plan for its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock options allocated to the qualified officers is based on the performance of the individual officers as determined by management and it requires vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) *Unavailed Leaves*

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

2.26 Income Taxes

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 29).

2.27 Earnings Per Share

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

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

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

2.28 Trust Activities

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

2.29 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Classification of Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

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

(b) Impairment of AFS Securities

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

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2016 and 2015 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) *Distinction Between Investment Properties and Owner-occupied Properties*

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

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

(d) *Distinction Between Operating and Finance Leases*

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

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

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

(f) *Assessment of Significant Influence on Entities in which BDO Unibank Group Holds Less than 20% Ownership*

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

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

(g) Recognition of Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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

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

BDO Unibank Group reviews its AFS securities [see also Note 3.1 (b)], HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

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

(b) Fair Value Measurement for Financial Instruments

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

(c) *Determination of Fair Value of Derivatives*

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

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

(d) *Estimation of Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources*

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

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other resources, including trademark, are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2016 and 2015, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other resources, including trademark, during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determination of Assumptions for Management's Estimation of Fair Value of Investment Properties*

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

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

(f) *Determination of Realizable Amount of Deferred Tax Assets*

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

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2016 and 2015 is disclosed in Note 29.1.

(g) *Impairment of Non-financial Assets*

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

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

(h) *Valuation of Post-employment Defined Benefit*

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 24.

(i) *Recognition of Reward Points*

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

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

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

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 19.

(j) Valuation of Legal Policy Reserves

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

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

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

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

4. RISK MANAGEMENT

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

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price risks), credit and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital.

Risk management at the Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors (BOD) who is responsible for establishing and maintaining a sound risk management system. The Board of Directors has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program of the Bank. Considering the importance of appropriately addressing credit risk, the Board of Directors has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits. Specifically, BDO Unibank Group's RMC places limits on the level of exposure that can be taken in trading positions.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

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

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

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

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

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

- It disseminates the approved policies to the relevant businesses/functions including authorities delegated down to the businesses/functions to guide them in the conduct of their businesses/functions.

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

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

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

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

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2016 and 2015 in accordance with account classification of the BSP, is presented in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2016				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 40,909	P -	P -	P -	P 40,909
Due from BSP and other banks	359,777	12	3	4	359,796
Loans and other receivables - net	449,361	166,898	207,283	750,382	1,573,924
Trading and investment securities	49,247	11,451	71,814	136,530	269,042
Other resources*	-	-	-	81,287	81,287
Total Resources	899,294	178,361	279,100	968,203	2,324,958
Liabilities and Equity:					
Deposit liabilities	316,442	4,949	18,924	1,564,889	1,905,204
Bills and subordinated notes payable	43,573	8,429	33,641	24,943	110,586
Insurance contract liabilities	(218)**	(1,292)**	(1,130)**	23,188	20,548
Other liabilities	20,569	3,944	3,965	42,607	71,085
Total Liabilities	380,366	16,030	55,400	1,655,627	2,107,423
Equity	-	-	-	217,535	217,535
Total Liabilities and Equity	380,366	16,030	55,400	1,873,162	2,324,958
On-book gap	518,928	162,331	223,700	(904,959)	-
Cumulative on-book gap	518,928	681,259	904,959	-	-
Contingent assets	109,497	44,011	21,765	15,064	190,337
Contingent liabilities	149,235	46,744	21,322	14,807	232,108
Off-book gap	(39,738)	(2,733)	443	257	(41,771)
Net Periodic Gap	479,190	159,598	224,143	(904,702)	41,771
Cumulative Total Gap	**P 479,190**	**P 638,788**	**P 862,931**	**(P 41,771)**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*
** *Insurance Contract Liabilities with maturity of one month to three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.*

BDO Unibank Group

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

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

Parent Bank

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

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

Parent Bank

	2015 (As Restated)				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,767	P -	P -	P -	P 41,767
Due from BSP and other banks	281,785	-	-	-	281,785
Loans and other receivables - net	393,815	103,772	199,021	626,703	1,323,311
Trading and investment securities	4,483	20,745	36,935	134,337	196,500
Other resources*	3,244	-	-	91,971	95,215
Total Resources	725,094	124,517	235,956	853,011	1,938,578
Liabilities and Equity:					
Deposit liabilities	313,766	3,483	10,103	1,275,695	1,603,047
Bills and subordinated notes payable	23,650	15,674	36,371	11,202	86,897
Other liabilities	15,386	-	-	33,985	49,371
Total Liabilities	352,802	19,157	46,474	1,320,882	1,739,315
Equity	-	-	-	199,263	199,263
Total Liabilities and Equity	352,802	19,157	46,474	1,520,145	1,938,578
On-book gap	372,292	105,360	189,482	(667,134)	-
Cumulative on-book gap	372,292	477,652	667,134	-	-
Contingent assets	110,458	17,240	11,412	7,739	146,849
Contingent liabilities	169,875	22,659	16,696	6,001	215,231
Off-book gap	(59,417)	(5,419)	(5,284)	1,738	(68,382)
Net Periodic Gap	312,875	99,941	184,198	(665,396)	68.382
Cumulative Total Gap	P 312,875	P 412,816	P 597,014	(P 68,382)	P -

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

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

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

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

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2016 and 2015 follows:

BDO Unibank Group

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

Parent Bank

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

4.2.2 Interest Rate Risk

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

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2016 and 2015 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

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

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

BDO Unibank Group

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

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

Parent Bank

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

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

Parent Bank

	2015 (As Restated)					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,767	P 41,767
Due from BSP and other banks	6,233	-	-	-	275,552	281,785
Loans and other receivables	776,947	89,137	283,603	173,624	-	1,323,311
Trading and investment securities	778	20,745	101,063	68,498	5,416	196,500
Other resources*	-	-	-	-	95,215	95,215
Total Resources	783,958	109,882	384,666	242,122	417,950	1,938,578
Liabilities and Equity:						
Deposit liabilities	381,562	34,617	95,699	16,471	1,074,698	1,603,047
Bills and subordinated notes payable	23,650	15,674	37,565	10,008	-	86,897
Other liabilities	-	-	-	-	49,371	49,371
Total Liabilities	405,212	50,291	133,264	26,479	1,124,069	1,739,315
Equity	-	-	-	-	199,263	199,263
Total Liabilities and Equity	405,212	50,291	133,264	26,479	1,323,332	1,938,578
On-book gap	378,746	59,591	251,402	215,643	(905,382)	-
Cumulative on-book gap	378,746	438,337	689,739	905,382	-	-
Contingent assets	12,687	-	-	-	-	12,687
Contingent liabilities	12,612	-	-	-	-	12,612
Off-book gap	75	-	-	-	-	75
Net Periodic Gap	378,821	59,591	251,402	215,643	(905,382)	(75)
Cumulative Total Gap	P 378,821	P 438,412	P 689,814	P 905,457	P 75	P -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

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

BDO Unibank Group

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

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

Parent Bank

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

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

4.2.3 Price Risk

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

The table below summarizes the impact of equity prices on listed equity securities classified as HFT securities, financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index, which was 2.88% in 2016 and 2015 for securities classified as HFT securities, financial assets at FVTPL and AFS securities, with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2016	2015	**2016**	2015
HFT securities and Financial assets at FVTPL	**P 75**	P 8	**P -**	P -
AFS financial assets	**-**	-	**414**	211
	P 75	P 8	**P 414**	P 211

Parent Bank

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

4.3 Credit Risk

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

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

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

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

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

4.3.1 Exposure to Credit Risk

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

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

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

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

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

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

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

(c) Adversely Classified

i. Loans Especially Mentioned (LEM)

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

ii. Substandard

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

iii. Doubtful

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

iv. Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

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

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

The following table shows the exposure to credit risk as of December 31, 2016 and 2015 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

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

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

BDO Unibank Group

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

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

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

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

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

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

Parent Bank

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

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

Parent Bank

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

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

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

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

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

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

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

4.3.2 Collateral Held as Security and Other Credit Enhancements

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

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

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

As of December 31, 2016 and 2015, no collateral is held for due from other banks and trading and investment securities.

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

4.3.3 Concentrations of Credit Risk

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

BDO Unibank Group

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

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

Parent Bank

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

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

4.4 Operational Risk

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

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

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

Framework

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

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

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

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

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

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

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

5. SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2015								
Statement of Income								
Total interest income								
External	P 69,204	P 83	P 1,215	P 1,566	P -	P 59	P -	P 72,127
Intersegment	207	2	-	1	8	- 1	(219)	-
	69,411	85	1,215	1,567	8	60	(219)	72,127
Total interest expense								
External	14,410	1	289	466	-	-	-	15,166
Intersegment	17	70	-	99	-	35	(221)	-
	14,427	71	289	565	-	35	(221)	15,166
Net interest income	54,984	14	926	1,002	8	25	2	56,961
Other operating income								
Investment banking fees	-	1,110	-	-	-	-	-	1,110
Others	29,275	368	1,096	1,039	1,249	441	(2,639)	30,829
	29,275	1,478	1,096	1,039	1,249	441	(2,639)	31,939
Other operating expenses								
Depreciation and amortization	3,161	54	48	670	14	14	-	3,961
Impairment losses	2,887	2	25	83	2	1	-	3,000
Others	48,109	640	1,060	564	635	316	(141)	51,183
	54,157	696	1,133	1,317	651	331	(141)	58,144
Profit before tax	30,102	796	889	724	606	135	(2,496)	30,756
Tax expense	4,875	234	221	167	179	25	-	5,701
Net profit	P 25,227	P 562	P 668	P 557	P 427	P 110	(P 2,496)	P 25,055
Statement of Financial Position								
Total resources								
Segment assets	P 1,953,458	P 6,851	P 51,527	P 34,510	P 957	P 6,644	(P 36,386)	P 2,017,561
Intangible assets	4,517	102	13	51	26	2	2,903	7,614
Deferred tax assets (liabilities) - net	6,271	(216)	58	(14)	10	(30)	-	6,079
	P 1,964,246	P 6,737	P 51,598	P 34,547	P 993	P 6,616	(P 33,483)	P 2,031,254
Total liabilities	P 1,761,203	P 5,082	P 46,024	P 29,331	P 777	P 1,641	(P 12,417)	P 1,831,641
Other segment information								
Capital expenditures	P 8,919	P 20	P 17	P 1,150	P 4	P 141	P -	P 10,251
Investment in associates under equity method	P 5,656	P 85	P -	P -	P -	P -	P -	P 5,741
Share in the profit of associates	P 817	P 20	P -	P -	P -	P -	P -	P 837

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
December 31, 2014								
Statement of Income								
Total interest income								
External	P 60,673	P 73	P 1,298	P 1,445	P -	P 94	P -	P 63,583
Intersegment	198	4	4	-	7	1	(214)	-
	60,871	77	1,302	1,445	7	95	(214)	63,583
Total interest expense								
External	11,715	3	242	366	-	32	-	12,358
Intersegment	12	73	-	93	-	34	(212)	-
	11,727	76	242	459	-	66	(212)	12,358
Net interest income	49,144	1	1,060	986	7	29	(2)	51,225
Other operating income								
Investment banking fees	-	1,144	-	-	-	-	-	1,144
Others	27,032	269	627	827	1,022	416	(1,850)	28,343
	27,032	1,413	627	827	1,022	416	(1,850)	29,487
Other operating expenses								
Depreciation and amortization	2,640	48	46	498	11	19	-	3,262
Impairment losses	5,014	(1)	1	100	-	-	-	5,114
Others	42,197	689	1,031	507	571	408	(135)	45,268
	49,851	736	1,078	1,105	582	427	(135)	53,644
Profit before tax	26,325	678	609	708	447	18	(1,717)	27,068
Tax expense	3,522	198	168	206	133	13	-	4,240
Net profit	P 22,803	P 480	P 441	P 502	P 314	P 5	(P 1,717)	P 22,828
Statement of Financial Position								
Total resources								
Segment assets	P 1,793,126	P 13,949	P 38,779	P 29,220	P 1,101	P 6,436	(P 29,435)	P 1,853,176
Intangible assets	4,247	102	18	60	12	1	-	4,440
Deferred tax assets (liabilities) - net	6,213	(193)	73	(41)	11	(30)	-	6,033
	P 1,803,586	P 13,858	P 38,870	P 29,239	P 1,124	P 6,407	(P 29,435)	P 1,863,649
Total liabilities	P 1,624,546	P 10,694	P 33,024	P 24,255	P 751	P 1,492	(P 10,782)	P 1,683,980
Other segment information								
Capital expenditures	P 7,255	P 16	P 41	P 1,183	P -	P 23	P -	P 8,518
Investment in associates under equity method	P 5,840	P 51	P -	P -	P -	P -	P -	P 5,891
Share in the profit of associates	P 637	P 15	P -	P -	P -	P -	P -	P 652

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

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

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

BDO Unibank Group

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

	2015			
	Classes			
	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

BDO Unibank Group

	2015			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 1,663,853	P -	P 1,663,853	P 1,667,276
Bills payable	97,543	-	97,543	98,181
Subordinated notes payable	10,030	-	10,030	9,990
Other liabilities	51,946	-	51,946	51,946
At fair value –				
Other liabilities	-	4,167	4,167	4,167
	P 1,823,372	P 4,167	P 1,827,539	P 1,831,560

Parent Bank

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

Parent Bank

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

** Unquoted AFS securities (amounting to P243 and P249 for BDO Unibank Group in 2016 and 2015, respectively, and P191 and P193 for the Parent Bank in 2016 and 2015, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

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

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

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

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

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

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

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

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

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2016 and 2015 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P243 and P249 in 2016 and 2015, respectively, in BDO Unibank Group financial statements and P191 and P193 in 2016 and 2015, respectively, in the Parent Bank's financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2016					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 6,845**	**P -**	**P 6,845**
Government bonds		**3,001**	**-**	**-**	**3,001**
Other debt securities		**1,841**	**-**	**-**	**1,841**
Equity securities – quoted		**2,337**	**-**	**-**	**2,337**
		7,179	**6,845**	**-**	**14,024**
AFS securities – net:	9.2				
Government debt securities		**49,457**	**-**	**-**	**49,457**
Other debt securities		**44,169**	**-**	**-**	**44,169**
Equity securities – quoted		**14,124**	**139**	**-**	**14,263**
		107,750	**139**	**-**	**107,889**
		P 114,929	**P 6,984**	**P -**	**P 121,913**
Liabilities –					
Derivatives with negative fair values	19	**P 65**	**P 5,410**	**P -**	**P 5,475**

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 5,461	P -	P 5,461
Government bonds		4,855	-	-	4,855
Other debt securities		3,054	-	-	3,054
Equity securities – quoted		197	-	-	197
		8,106	5,461	-	13,567
AFS securities – net:	9.2				
Government debt securities		137,161	-	-	137,161
Other debt securities		67,011	-	-	67,011
Equity securities – quoted		7,585	186	-	7,771
		211,757	186	-	211,943
		P 219,863	P 5,647	P -	P 225,510
Liabilities –					
Derivatives with negative fair values	19	P 36	P 4,131	P -	P 4,167

Parent Bank

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

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 1,687	P -	P 1,687
Government bonds		3,679	-	-	3,679
Other debt securities		50	-	-	50
		3,729	1,687	-	5,416
AFS securities – net:	9.2				
Government debt securities		127,324	-	-	127,324
Other debt securities		59,266	-	-	59,266
Equity securities – quoted		4,116	185	-	4,301
		190,706	185	-	190,891
		P 194,435	P 1,872	P -	P 196,307
Liabilities –					
Derivatives with negative fair values	19	P 36	P 1,157	P -	P 1,193

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

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

(a) Equity securities

As of December 31, 2016 and 2015, instruments included in Level 1 consist of quoted equity securities classified as financial assets at FVTPL or AFS securities. These securities were valued based on their closing prices on the PSE.

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

(b) Debt securities

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

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

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

(c) Derivatives

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

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

The table 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, 2016				
Resources:				
Cash and other cash items	**P 40,909**	**P -**	**P -**	**P 40,909**
Due from BSP	**318,008**	**-**	**-**	**318,008**
Due from other banks	**41,794**	**-**	**-**	**41,794**
Loans and other receivable	**-**	**-**	**1,582,378**	**1,582,378**
HTM investments	**146,853**	**-**	**-**	**146,853**
Other resources	**5,563**	**-**	**769**	**6,332**
	P 553,127	**P -**	**P 1,583,147**	**P 2,136,274**
Liabilities:				
Deposit liabilities	**P 1,800,148**	**P 108,179**	**P -**	**P 1,908,327**
Bills payable	**29,460**	**70,836**	**-**	**100,296**
Insurance contract liabilities	**-**	**-**	**20,548**	**20,548**
Subordinated notes payable	**-**	**10,088**	**-**	**10,088**
Other liabilities	**-**	**-**	**60,387**	**60,387**
	P 1,829,608	**P 189,103**	**P 80,935**	**P 2,099,646**
December 31, 2015				
Resources:				
Cash and other cash items	P 42,729	P -	P -	P 42,729
Due from BSP	271,808	-	-	271,808
Due from other banks	24,837	-	-	24,837
Loans and other receivable	-	-	1,397,542	1,397,542
Other resources	5,021	-	5,366	10,387
	P 344,395	P -	P 1,402,908	P 1,747,303
Liabilities:				
Deposit liabilities	P 1,551,284	P 115,992	P -	P 1,667,276
Bills payable	49,988	48,193	-	98,181
Subordinated notes payable	-	9,990	-	9,990
Other liabilities	-	-	51,946	51,946
	P 1,601,272	P 174,175	P 51,946	P 1,827,393

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Resources:				
Cash and other cash items	**P 39,813**	**P -**	**P -**	**P 39,813**
Due from BSP	**304,291**	**-**	**-**	**304,291**
Due from other banks	**33,463**	**-**	**-**	**33,463**
HTM investments	**140,990**	**-**	**-**	**140,990**
Loans and other receivables	**-**	**-**	**1,525,420**	**1,525,420**
Other resources	**3,468**	**-**	**672**	**4,140**
	P 522,025	**P -**	**P 1,526,092**	**P 2,048,117**
Liabilities:				
Deposit liabilities	**P 1,729,673**	**P 102,791**	**P -**	**P 1,832,464**
Bills payable	**29,460**	**46,096**	**-**	**75,556**
Subordinated notes payable	**-**	**10,088**	**-**	**10,088**
Other liabilities	**-**	**-**	**49,298**	**49,298**
	P 1,759,133	**P 158,975**	**P 49,298**	**P 1,967,406**
December 31, 2015				
Resources:				
Cash and other cash items	P 41,767	P -	P -	P 41,767
Due from BSP	260,841	-	-	260,841
Due from other banks	20,944	-	-	20,944
Loans and other receivables	-	-	1,338,100	1,338,100
Other resources	3,249	-	7,707	10,956
	P 326,801	P -	P 1,345,807	P 1,672,608
Liabilities:				
Deposit liabilities	P 1,491,855	P 111,585	P -	P 1,603,440
Bills payable	37,871	39,633	-	77,504
Subordinated notes payable	-	9,990	-	9,990
Other liabilities	-	-	44,542	44,542
	P 1,529,726	P 161,208	P 44,542	P 1,735,476

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

(a) Due from BSP and Other Banks

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

(b) AFS Securities and HTM Investments

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

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

(c) Loans and Other Receivables

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

(d) Deposits and Borrowings

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

(e) Other Resources and Liabilities

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

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2016 and 2015 are shown below.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Investment properties				
Land	P -	P -	P 15,184	P 15,184
Building and improvements	-	-	11,095	11,095
Non-current assets held for sale	-	-	661	661
	P -	P -	P 26,940	P 26,940

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Investment properties				
Land	P -	P -	P 14,398	P 14,398
Building and improvements	-	-	10,075	10,075
Non-current assets held for sale	-	-	521	521
	P -	P -	P 24,994	P 24,994

Parent Bank

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

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2016 and 2015 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by BDO Unibank Group and Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

The fair value of these investment properties and assets held for sale were determined based on the following approaches:

(a) Fair Value Measurement for Land

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

(b) *Fair Value Measurement for Buildings and Improvements*

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

(c) *Fair Value Measurement for Assets held for sale*

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

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2016 and 2015.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2016 and 2015 are subject to offsetting, enforceable master netting arrangements and similar agreements:

BDO Unibank Group

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

	Financial assets	Financial liabilities available for set-off	Collateral received	Net amount
December 31, 2015				
AFS securities	P 4,745	P 569	P -	P 4,176
Financial assets at FVTPL:				
Currency swaps	2,526	717	-	1,809
Interest rate swaps	55	55	-	-
Loans and receivables – Receivables from customers	35,783	1,113	33,806	864
Other resources – Margin deposits	1,771	1,771	-	-
	P 44,880	P 4,225	P 33,806	P 6,849

Parent Bank

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

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

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

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

BDO Unibank Group

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

BDO Unibank Group

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

Parent Bank

	Financial liabilities	Financial assets available for set-off	Collateral given	Net amount
December 31, 2016				
Deposit liabilities	**P 99,111**	**P 42,243**	**P -**	**P 56,868**
Bills payable	**602**	**-**	**602**	**-**
Derivatives with negative fair values:				
Currency swaps	**19**	**11**	**-**	**8**
Interest rate swaps	**37**	**30**	**-**	**7**
Total	**P 99,769**	**P 42,284**	**P 602**	**P 56,883**
December 31, 2015				
Deposit liabilities	P 47,106	P 33,664	P -	P 13,442
Bills payable	577	-	577	-
Derivatives with negative fair values:				
Currency swaps	20	5	-	15
Interest rate swaps	47	39	-	8
Total	P 47,750	P 33,708	P 577	P 13,465

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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

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

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rates of 2.5% both in 2016 and 2015, and range from 2.0% to 2.5% in 2014. Total interest income earned amounted to P564, P738 and P2,026 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P474, P592 and P1,787 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 21).

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

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

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

The breakdown of this account as to currency follows:

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

Annual interest rates on these deposits range from 0.01% to 2.38% in 2016, 0.01% to 1.50% in 2015 and 0.01% to 3.30% in 2014 in BDO Unibank Group's financial statements and 0.01% to 1.05% in 2016, 0.01% to 0.80% in 2015 and 0.01% to 0.70% in 2014 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P132, P57 and P39 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P91, P43 and P35 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 21).

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

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

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

9.1 Financial Assets at FVTPL

This account is composed of the following:

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

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P96, P121 and P37 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and (P45), P167 and P65 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements. These are included as part of Trading gains under Other Operating Income account in the statements of income (see Note 23).

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

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

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

BDO Unibank Group

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

Parent Bank

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

9.2 AFS Securities

AFS securities consist of the following:

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

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

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

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 2.0% to 12.1% in 2016 and 0.0% to 11.6% both in 2015 and 2014 for BDO Unibank Group's financial statements while 2.0% to 10.6% in 2016, 1.6% to 11.6% in 2015 and 0.0% to 11.6% in 2014 in the Parent Bank's financial statements.

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

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

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

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

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

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

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

In 2016, BDO Unibank Group has determined that there is an objective evidence that certain equity securities have shown significant or prolonged decline. Accordingly, BDO Unibank Group and Parent Bank recognized impairment loss amounting to P346 and nil, respectively, in 2016, and P1,841 and P1,841, respectively, in 2015. This is presented as part of Impairment Loss in the statements of income and under items that are reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 14).
In 2013, BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39. As of December 31, 2016 and 2015, the market value of the remaining reclassified investments amounted to P1,939 and P9,335, respectively, for both the BDO Unibank Group and Parent Bank's financial statements.

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

9.3 HTM Investments

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

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

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

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

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

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

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

9.4 Reclassification of Investment Securities

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

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

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

Non-performing loans included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2016 and 2015 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772, which amends regulations governing non-performing loans.

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
NPL	**P 17,943**	P 14,983	**P 15,855**	P 13,696
Allowance for impairment	**(12,037)**	(11,596)	**(11,169)**	(10,974)
	P 5,906	P 3,387	**P 4,686**	P 2,722

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

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

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

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

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

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

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

Loans and receivables bear annual interest rates of 0.0% (e.g. non-performing loans and zero percent credit card installment program) to 4.0%, 4.0% and 4.1% per month in 2016, 2015 and 2014, respectively.

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

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015 are shown below.

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2016						
Cost	P 6,118	P 21,051	P 15,739	P 5,512	P 289	P 48,709
Accumulated depreciation and amortization	-	(12,947)	(4,749)	(3,589)	-	(21,285)
Allowance for impairment	(137)	-	(375)	-	-	(512)
Net carrying amount	P 5,981	P 8,104	P 10,615	P 1,923	P 289	P 26,912

BDO Unibank Group

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2015						
Cost	P 6,027	P 18,778	P 14,678	P 4,621	P 251	P 44,355
Accumulated depreciation and amortization	-	(11,625)	(4,230)	(2,993)	-	(18,848)
Allowance for impairment	(137)	-	(375)	-	-	(512)
Net carrying amount	P 5,890	P 7,153	P 10,073	P 1,628	P 251	P 24,995
January 1, 2015						
Cost	P 5,211	P 15,415	P 8,390	P 3,996	P 4,244	P 37,256
Accumulated depreciation and amortization	-	(9,450)	(3,610)	(2,671)	-	(15,731)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	P 5,179	P 5,965	P 4,380	P 1,325	P 4,244	P 21,093

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
December 31, 2016						
Cost	P 5,378	P 15,448	P 14,752	P 5,037	P 265	P 40,880
Accumulated depreciation and amortization	-	(10,158)	(4,494)	(3,304)	-	(17,956)
Allowance for impairment	(123)	-	(371)	-	-	(494)
Net carrying amount	**P 5,255**	**P 5,290**	**P 9,887**	**P 1,733**	**P 265**	**P 22,430**
December 31, 2015						
Cost	P 5,287	P 14,132	P 13,849	P 4,360	P 248	P 37,876
Accumulated depreciation and amortization	-	(9,447)	(3,967)	(2,816)	-	(16,230)
Allowance for impairment	(123)	-	(371)	-	-	(494)
Net carrying amount	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P 21,152
January 1, 2015						
Cost	P 5,211	P 12,188	P 8,332	P 3,789	P 4,244	P 33,764
Accumulated depreciation and amortization	-	(8,324)	(3,563)	(2,528)	-	(14,415)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	P 5,179	P 3,864	P 4,369	P 1,261	P 4,244	P 18,917

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

BDO Unibank Group

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

Parent Bank

	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Rights and Improvements	Construction in Progress	Total
Balance at January 1, 2016, net of accumulated depreciation, amortization and impairment	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P 21,152
Additions	89	2,363	742	438	179	3,811
Disposals	-	(23)	-	(7)	-	(30)
Reclassifications	2	9	159	300	(162)	308
Depreciation and amortization charges for the year	-	(1,744)	(525)	(542)	-	(2,811)
Balance at December 31, 2016, net of accumulated depreciation, amortization and impairment	**P 5,255**	**P 5,290**	**P 9,887**	**P 1,733**	**P 265**	**P 22,430**
Balance at January 1, 2015, net of accumulated depreciation, amortization and impairment	P 5,179	P 3,864	P 4,369	P 1,261	P 4,244	P 18,917
Additions	72	2,299	1,384	426	258	4,439
Disposals	-	(10)	(60)	(13)	-	(83)
Reclassifications	(78)	47	4,258	318	(4,254)	291
Depreciation and amortization charges for the year	-	(1,515)	(440)	(448)	-	(2,403)
Reversal of appraisal increment	(9)	-	-	-	-	(9)
Balance at December 31, 2015, net of accumulated depreciation, amortization and impairment	P 5,164	P 4,685	P 9,511	P 1,544	P 248	P 21,152

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

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

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

12. INVESTMENT PROPERTIES

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

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

BDO Unibank Group

	Land	Buildings	Total
December 31, 2016			
Cost	P 9,923	P 10,227	P 20,150
Accumulated depreciation	-	(2,893)	(2,893)
Allowance for impairment (see Note 14)	(1,962)	(107)	(2,069)
Net carrying amount	**P 7,961**	**P 7,227**	**P 15,188**
December 31, 2015			
Cost	P 10,008	P 9,494	P 19,502
Accumulated depreciation	-	(2,564)	(2,564)
Allowance for impairment (see Note 14)	(2,205)	(100)	(2,305)
Net carrying amount	P 7,803	P 6,830	P 14,633

BDO Unibank Group

	Land		Buildings		Total	
January 1, 2015						
Cost	P	10,484	P	8,139	P	18,623
Accumulated depreciation		-	(	2,339)	(	2,339)
Allowance for impairment (see Note 14)	(	2,291)	(	132)	(	2,423)
Net carrying amount	P	8,193	P	5,668	P	13,861

Parent Bank

	Land		**Buildings**		**Total**	
December 31, 2016						
Cost	P	8,533	P	7,855	P	16,388
Accumulated depreciation		-	(	2,630)	(	2,630)
Allowance for impairment (see Note 14)	(	1,911)	(	63)	(	1,974)
Net carrying amount	**P**	**6,622**	**P**	**5,162**	**P**	**11,784**
December 31, 2015						
Cost	P	8,602	P	7,340	P	15,942
Accumulated depreciation		-	(	2,328)	(	2,328)
Allowance for impairment (see Note 14)	(	2,155)	(	56)	(	2,211)
Net carrying amount	P	6,447	P	4,956	P	11,403
January 1, 2015						
Cost	P	9,217	P	6,099	P	15,316
Accumulated depreciation		-	(	2,140)	(	2,140)
Allowance for impairment (see Note 14)	(	2,230)	(	88)	(	2,318)
Net carrying amount	P	6,987	P	3,871	P	10,858

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

BDO Unibank Group

	Land	Buildings	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 7,803	P 6,830	P 14,633
Additions	484	1,133	1,617
Disposals	(557)	(222)	(779)
Reclassifications	231	(7)	224
Depreciation for the year	-	(507)	(507)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 7,961**	**P 7,227**	**P 15,188**
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 8,193	P 5,668	P 13,861
Additions	1,392	1,896	3,288
Disposals	(1,853)	(196)	(2,049)
Reclassifications	71	(108)	(37)
Depreciation for the year	-	(430)	(430)
Balance at December 31, 2015, net of accumulated depreciation and impairment	P 7,803	P 6,830	P 14,633

Parent Bank

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

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

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

The recoverable amount of impaired investment properties as of December 31, 2016 and 2015 was based on value in use computed through discounted cash flows method at an effective rate of 1.26% and 1.45% in 2016 and 2015, respectively.

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

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, non-current assets held for sale, AFS securities or other resources. As of December 31, 2016 and 2015, ROPA, gross of allowance, comprise of the following:

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

13. OTHER RESOURCES

The components of this account are shown below.

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

13.1 *Equity Investments*

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015 (As restated - see Note 2.1)
Acquisition costs:					
Philippine subsidiaries					
ONB	99.76%	**P -**	P -	**P 6,696**	P 6,687
BDOSHI	100%	**-**	-	**5,684**	5,684
BDO Life**	100%	**-**	-	**3,403**	-
BDO Private	100%	**-**	-	**2,579**	2,579
BDO Leasing	87.43%	**-**	-	**1,878**	1,878
BDO Capital	99.88%	**-**	-	**1,878**	300
BDO Nomura	51%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
PCI Insurance	100%	**-**	-	**8**	8
Equimark	60%	**-**	-	**4**	4
BDO Savings	***	**-**	-	**-**	878
BDO Elite	***	**-**	-	**-**	700
		-	-	**22,214**	18,802
Foreign subsidiaries					
BDORO	100%	**-**	-	**169**	169
BDO Remit (Japan) Ltd.	100%	**-**	-	**92**	30
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
BDO Remit (Canada) Ltd.	100%	**-**	-	**18**	18
PCIB Europe S.p.A.	100%	**-**	-	**1**	1
Express Padala Frankfurt GmbH	100%	**-**	-	**-**	1
		-	-	**334**	273
Associates and Joint Venture					
SM Keppel Land, Inc. (SM Keppel)	50.00%	**1,658**	1,658	**1,658**	1,658
MNTC	12.40%	**1,405**	1,405	**1,405**	1,405
MMPC Auto-Financial Services Corporation (MAFSC)	34.97%	**300**	-	**-**	-
Northpine Land Incorporated	20.00%	**232**	232	**232**	232
Taal Land, Inc.	33.33%	**170**	170	**170**	170
BDO Life**	40.00%	**-**	1,235	**-**	1,168
Others	*	**10**	10	**10**	10
		3,775	4,710	**3,475**	4,643
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**1,031**	1,181	**8,574**	10,513
Equity in net profit		**481**	837	**3,516**	2,276
Equity in other comprehensive income (loss)		**1**	(356)	**(2,095)**	(414)
BDO Life step acquisition**		**(334)**	-	**-**	-
Reclassification		**-**	(501)	**-**	-
Dividends		**(505)**	(130)	**(2,574)**	(3,801)
Balance at end of year		**674**	1,031	**7,421**	8,574
Net investments in associates/subsidiaries		**4,449**	5,741	**33,444**	32,292
Allowance for impairment		**(39)**	(39)	**(2,850)**	(2,850)
		P 4,410	P 5,702	**P 30,594**	P 29,442

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*
** *BDO Life is an associate of BDO Unibank Group and the Parent Bank in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 28.4).*
*** *BDO Savings and BDO Elite were merged with BDO Capital in 2016 (see Note 28.3).*

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

The fair value of BDO Leasing amounts to P7,257 and P4,691 in 2016 and 2015, respectively, which had been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2016 are all incorporated in the Philippines, except for the following:

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

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

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in UK and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO applied for a banking license in the UK, but the approval is still pending as of December 31, 2016. In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. Starting in 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares in CBN Grupo which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 28.1)

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon, a company engaged primarily in the leasing business. Gain from acquisition amounted to P43 and is presented as part of Miscellaneous under Other Operating Income account in the 2014 statement of income of BDO Unibank Group (see Note 23).

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 13.4). In 2016, BDO Savings was merged with BDO Capital together with BDO Elite with BDO capital as surviving entity (see Note 28.3).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan, to operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014. In April 2016, BDO Remit (Japan) Ltd. started its operations. The Parent Bank paid P62 and P30 as capital contribution in 2016 and 2015, respectively.

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

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

Name	Proportion of ownership interest and voting rights held by NCI		Profit allocated to NCI		Accumulated NCI	
	2016	2015	**2016**	2015	**2016**	2015
BDO Leasing	11.46%	11.46 %	**P 65**	P 64	**P 613**	P 598

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

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

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

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

		MNTC		BDO Life		SM Keppel		Others		Total
December 31, 2016 (Unaudited)										
Assets	**P**	**35,279**	**P**	**-**	**P**	**5,295**	**P**	**2,968**	**P**	**43,542**
Liabilities		**25,670**		**-**		**3,000**		**1,152**		**29,822**
Equity		**9,609**		**-**		**2,295**		**1,816**		**13,720**
Revenues		**10,772**		**-**		**175**		**957**		**11,904**
Net profit		**4,085**		**-**		**21**		**95**		**4,201**
December 31, 2015 (Audited)										
Assets	P	30,885	P	22,971	P	2,673	P	2,334	P	58,863
Liabilities		22,751		19,006		398		575		42,730
Equity		8,134		3,965		2,275		1,759		16,133
Revenues		8,690		7,230		177		695		16,792
Net profit		2,993		1,102		22		109		4,226
December 31, 2014 (Audited)										
Assets	P	28,715	P	19,220	P	2,493	P	2,051	P	52,479
Liabilities		21,087		15,487		241		367		37,182
Equity		7,628		3,733		2,252		1,684		15,297
Revenues		10,129		5,985		187		677		16,978
Net profit		2,565		851		16		100		3,532

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the Parent Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by the Parent Bank with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement. On August 26, 2016, the Parent Bank received an amount of P4,650 for the partial termination of escrow. Deposits under escrow earned a return on investment of 3.3% and 1.4% in 2016 and 2015, respectively. In 2016 and 2015, BDO Unibank Group and Parent Bank recognized income amounting to P95 and P1,269, respectively, which is presented as part of Miscellaneous under Other Operating Income account in the statements of income (see Note 23). As of December 31, 2016 and 2015, BDO Unibank Group and Parent Bank provided an allowance for impairment both amounting to P400.

13.3 Goodwill

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., CBN Grupo International Holdings B.V., BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015 and 2016, respectively (see Note 28).

The Parent Bank recognized impairment loss of P4, P4 and P62 in 2016, 2015 and 2014, respectively, to write-down the value of the goodwill to their recoverable amount (see Note 14). The Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. There is no impairment loss recognized on the goodwill at the BDO Unibank Group's financial statements, except those related to the Parent Bank.

13.4 Branch Licenses

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

13.5 Receivables from SPVs

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

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

13.6 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2014 to 2016 in both BDO Unibank Group and Parent Bank's financial statements.

13.7 Trademark

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

13.8 Others

Amortization expense on computer software licenses amounted to P444, P285 and P206 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P380, P249 and P196 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 23).

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

In 2016 and 2015, the Parent Bank recognized impairment loss amounting to P15 and P26, respectively, to write-down the value of customer list to its recoverable amount (see Note 14). The impairment provision was recognized through direct write-off of the cost of the asset. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014 (see Note 28.9).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2016**	2015	**2016**	2015
Balance at beginning of year:					
AFS securities	9.2	**P 3,936**	P 2,175	**P 3,792**	P 1,915
Loans and other receivables	10	**27,659**	28,172	**26,194**	27,614
Bank premises	11	**512**	432	**494**	432
Investment properties	12	**2,305**	2,423	**2,211**	2,318
Other resources	13	**2,553**	5,921	**4,824**	8,520
		36,965	39,123	**37,515**	40,799
Impairment losses - net		**3,749**	2,974	**2,988**	2,683
Business combination		**189**	752	**-**	-
Adjustments		**(142)**	(592)	**5**	(965)
Write-offs		**(3,330)**	(5,456)	**(3,328)**	(5,188)
Reversals		**(117)**	(25)	**-**	-
Foreign currency revaluation		**237**	189	**235**	186
		P 37,551	P 36,965	**P 37,415**	P 37,515

	Notes	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015
Balance at end of year:					
AFS securities	9.2	**P 4,318**	P 3,936	**P 3,788**	P 3,792
Loans and other receivables	10	**28,086**	27,659	**26,314**	26,194
Bank premises	11	**512**	512	**494**	494
Investment properties	12	**2,069**	2,305	**1,974**	2,211
Other resources	13	**2,566**	2,553	**4,845**	4,824
		P 37,551	P 36,965	**P 37,415**	P 37,515

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

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

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

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

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

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

	BDO Unibank Group 2016	BDO Unibank Group 2015	Parent Bank 2016	Parent Bank 2015
Due to other banks:				
Demand	**P 1,718**	P 1,575	**P 1,718**	P 1,567
Savings	**2,991**	4,441	**2,988**	4,438
Time	**1,358**	984	**1,058**	984
Balance brought forward	**P 6,067**	P 7,000	**P 5,764**	P 6,989

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

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

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

The maturity profile of this account is presented below.

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

BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0.0% to 5.3% in 2016, 2015 and 2014. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 22).

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

BSP Approval	Effective Rate	Outstanding Balance 2016	Outstanding Balance 2015	Issue Date	Maturity Date
July 10, 2014	3.75%	**P 7,500**	P 7,500	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	**5,000**	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	**5,000**	5,000	September 12, 2013	September 12, 2020
January 31, 2013	3.80%	**5,000**	5,000	March 25, 2013	September 25, 2018
May 3, 2012	5.25%	**5,000**	5,000	October 15, 2012	October 15, 2019
		P 27,500	P 27,500		

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

Effective May 30, 2014, Philippine Peso deposit liabilities, LTNCD under Circular No. 824 and LTNCD under Circular No. 304 of BDO Unibank Group are subject to a reserve requirement of 20%, 7% and 4%, respectively, in compliance with the BSP Circular No. 832 issued on May 27, 2014 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		Parent Bank	
	Note	**2016**	2015	**2016**	2015
Foreign banks	16.1	**P 36,545**	P 38,844	**P 36,522**	P 38,844
Senior notes	16.2	**30,150**	28,555	**30,150**	28,555
Local banks		**10,334**	8,153	**-**	-
Deposit substitutes		**602**	570	**602**	570
Others		**22,925**	21,421	**8,526**	8,898
		P 100,556	P 97,543	**P 75,800**	P 76,867

The breakdown of this account as to currency follows:

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

The maturity profile of this account is presented below.

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

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

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 22):

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

16.1 Foreign Banks

In 2015, the Bank borrowed $500 through a term loan facility from a syndicate of foreign banks. This transaction was a combination of a re-financing of an existing loan of $350 and an increase in the transaction amount to $500 for general financing purposes. The loan facility has a three-year tenor with a floating interest rate payable quarterly. As of December 31, 2016 and 2015, the related syndicated term loan have outstanding balance of P24,770 and P23,335, respectively, net of related debt transaction costs.

16.2 Senior Notes

The Parent Bank issued senior notes as follows:

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

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

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

17. SUBORDINATED NOTES PAYABLE

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

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

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519, P519 and P80 in 2016, 2015 and 2014, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 22).

18. INSURANCE CONTRACT LIABILITIES

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

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

Insurance contract liabilities may be analyzed as follows:

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

The movements in legal policy reserves are as follows:

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

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

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

19. OTHER LIABILITIES

Other liabilities consist of the following:

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

The liability for unredeemed reward points amounting to P2,355 and P2,488 as of December 31, 2016 and 2015, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.20).

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

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

Interest expense on certain liabilities amounting to P80, P7 and P8 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P6, P7, and P8 in 2016, 2015 and 2014, respectively, in Parent Bank's financial statements are presented as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 22).

20. EQUITY

20.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the 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 of December 31, 2016 and 2015, the Parent Bank has complied with the above capitalization requirement.

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

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

BDO Unibank Group's and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2016 and 2015 follows:

	BDO Unibank Group	Parent Bank
December 31, 2016		
Tier 1 Capital		
CET 1	P 210,641	P 208,770
Additional Tier 1	5,150	5,150
	215,791	213,920
Tier 2 Capital	24,762	24,088
Total Regulatory Capital	240,553	238,008
Deductions	(21,937)	(49,633)
Total Qualifying Capital	P 218,616	P 188,375

	BDO Unibank Group	Parent Bank
Total Risk-Weighted Assets	**P 1,769,590**	**P 1,649,361**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**12.4%**	**11.4%**
Tier 1 Capital Ratio	**11.0%**	**10.0%**
Total CET 1 Ratio	**10.7%**	**9.6%**

December 31, 2015

	BDO Unibank Group	Parent Bank
Tier 1 Capital		
CET 1	P 192,838	P 193,105
Additional Tier 1	5,150	5,150
	197,988	198,255
Tier 2 Capital	24,612	23,815
Total Regulatory Capital	222,600	222,070
Deductions	(22,125)	(49,341)
Total Qualifying Capital	P 200,475	P 172,729
Total Risk-Weighted Assets	P 1,503,291	P 1,414,579
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	13.3%	12.2%
Tier 1 Capital Ratio	11.7%	10.5%
Total CET 1 Ratio	11.4%	10.2%

20.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2016	2015	**2016**	2015
Preferred shares – P10 par value				
Authorized – 2,000,000,000 shares				
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized – 4,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of year	3,645,375,218	3,580,875,328	**P 36,453**	P 35,808
Issued during the year	4,592,430	64,499,890	**47**	645
Balance at end of year	**3,649,967,648**	3,645,375,218	**P 36,500**	P 36,453

20.2.1 Preferred Shares

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

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

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

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

20.2.2 Common Shares

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

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

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employee	June 6, 2016 to December 31, 2016	4,592,430
			3,649,967,648

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

20.3 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

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

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

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

As of December 31, 2016 and 2015, 288 and 200 ADRs valued at US$6,333 and US$4,346 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$21.99/share and US$21.73/share respectively).

20.4 Surplus Free

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

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

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

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

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

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

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

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

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

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

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

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

20.5 Surplus Reserves

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

On March 28, 2015, the BOD of BDO Capital approved the appropriation of its surplus free amounting to P1,000 as additional working capital for its underwriting activities and investments. Subsequently, on May 30, 2015, the BOD of BDO Capital approved the reversal thereof amounting to P100. Also, on June 27, 2015, the BOD of BDO Capital approved the reversal of the remaining appropriated retained earnings amounting to P1,900 in connection with the merger with BDO Elite and BDO Savings (see Note 28.3).

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

Also, included in the 2016, 2015 and 2014 surplus reserve are the appropriations made by BDO Securities, BDO Nomura (formerly PCIB Securities, Inc.) and Armstrong Securities, Inc. totaling P8, P14 and P17, respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers*.

In compliance with BSP regulations, 10% of BDO Unibank Group's and the Parent Bank's profit from trust business amounting to P240 and P215 in 2016 and 2015, respectively, and P182 and P171 in 2016 and 2015, respectively, is appropriated to surplus reserves (see Note 26).

20.6 Other Reserves

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

20.7 ESOP

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

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

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

21. INTEREST INCOME

Interest income consists of the following:

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

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

22. INTEREST EXPENSE

Interest expense is composed of the following:

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

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

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

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

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

Other operating expenses consist of the following:

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

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

24. COMPENSATION AND BENEFITS

24.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

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

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

24.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2016 and 2015.

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

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

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

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

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

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

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

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

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

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

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 25(c)].

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

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

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

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

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

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

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

	BDO Unibank Group		Parent Bank	
	2016	2015	**2016**	2015
Discount rates	**5.50%**	4.89% - 5.50%	**5.50%**	4.89%
Expected rate of salary increases	**9.00%**	8.00%	**9.00%**	8.00%

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

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2016 and 2015:

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

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

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

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

A large portion of the plan assets as of December 31, 2016 and 2015 consists of debt instruments and UITFs, although the BDO Unibank Group and Parent Bank also invest in cash and cash equivalents and properties. The debt instruments include government bonds and corporate bonds.

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

(iii) Funding Arrangements and Expected Contributions

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

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

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

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

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

24.3 ESOP

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

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

25. RELATED PARTY TRANSACTIONS

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

		2016		2015	
Related Party Category	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI Loans	25(a)				
Stockholders		**P 16,529**	**P 11,309**	P 12,588	P 12,012
Related Parties Under Common Ownership		**42,812**	**10,333**	26,745	16,217
Officers and Employees		**1,296**	**1,598**	1,112	1,455

Related Party Category	Note	2016 Amount of Transaction	2016 Outstanding Balance	2015 Amount of Transaction	2015 Outstanding Balance
Deposit Liabilities	25(b)				
Stockholders		**386,266**	**68,009**	339,476	61,034
Related Parties Under Common Ownership		**403,677**	**6,745**	498,553	15,513
Officers and Employees		**36**	**7**	3	3
Other Transactions with Associates	25(d)				
Loans and Advances		**-**	**730**	5	1,225
Interest Income		**58**	**2**	17	59
Service Fees		**-**	**-**	51	14
Related Parties Under Common Ownership					
Rent Expense	25(d)	**915**	**103**	760	78
Key Management Personnel	25(d)				
Compensation		**1,473**	**-**	1,529	-
Retirement Plan	25(c)	**109**	**3,731**	224	3,081

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

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

Related Party Category	Note	2016 Amount of Transaction		2016 Outstanding Balance		2015 Amount of Transaction		2015 Outstanding Balance	
Related Parties Under Common Ownership									
Rent Expense	25(d)	P	**820**	**P**	**103**	P	699	P	78
Key Management Personnel	25(d)								
Compensation			**1,045**		**-**		1,079		-
Retirement Plan	25(c)		**109**		**3,728**		224		3,079

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described 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 in 2016, 2015 and 2014 which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2016 and 2015, BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group 2016		BDO Unibank Group 2015		Parent Bank 2016		Parent Bank 2015	
Total DOSRI loans	**P**	**23,240**	P	29,684	**P**	**23,226**	P	29,558
Unsecured DOSRI loans		**1,297**		1,148		**1,295**		1,145
Past due DOSRI loans		**-**		-		**-**		-
Non-performing DOSRI loans		**-**		-		**-**		-
% of DOSRI loans to total loan portfolio		**1.57%**		2.3%		**1.63%**		2.4%
% of unsecured DOSRI loans to total DOSRI loans		**5.58%**		3.9%		**5.58%**		3.9%
% of past due DOSRI loans to total DOSRI loans		**0.0%**		0.0%		**0.0%**		0.0%
% of non-performing DOSRI loans to total DOSRI loans		**0.0%**		0.0%		**0.0%**		0.0%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.0% to 12.0% both in 2016 and 2015, and 2.2% to 12.0% in 2014 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2016 amounted to P60,637 and P67,087 for BDO Unibank Group and P60,629 and P66,961 for the Parent Bank, respectively. Total loan releases and collections in 2015, on the other hand, amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively.

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

(b) *Deposits from Related Parties*

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

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended December 31, 2016 and 2015 as follows:

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

Transactions	BDO Unibank Group Amount of Transaction	BDO Unibank Group Outstanding Balance	Parent Bank Amount of Transaction	Parent Bank Outstanding Balance
December 31, 2015				
Loans to employees				
BDO Unibank, Inc.	P -	P 54	P -	P 54
BDO Leasing	-	1	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities (including LTNCDs)				
BDO Unibank, Inc.	-	3,011	-	3,011
Trading gain				
BDO Unibank, Inc.	219	-	219	-
Interest expense				
BDO Unibank, Inc.	5	-	5	-

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 24.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown in the section that follow. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total advances granted and collected amounted to P344 and P478, respectively, in 2016 and P417 and P346, respectively, in 2015. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P29 and P163 as of December 31, 2016 and 2015, respectively (see Note 10).

The Parent Bank also grants unsecured and interest-bearing loans to subsidiaries with outstanding balance of P5,931 and P6,715 as of December 31, 2016 and 2015, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). Total loans granted amounted to P41,691 and P44,702 while total loans collected amounted to P42,578 and P45,751, for 2016 and 2015, respectively. These loans are payable in cash with a term between one month to two years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 25). Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2016, 2015 and 2014.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, 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.

Total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). There are no outstanding balance arising from these transactions as of December 31, 2016 and 2015.

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees is presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 23). Outstanding balances arising from this as of December 31, 2016 and 2015 is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

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

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to P90, P82 and P119 in 2016, 2015 and 2014, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2016 and 2015.

(3) Expenses of the Parent Bank

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

(4) Derivatives

In 2016 and 2015, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2016 and 2015, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 9.1) and Derivative with negative fair values under Other Liabilities account in the statements of financial position (see Note 19).

(5) Deposit Liabilities

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

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2016 and 2015, BDO Unibank Group has outstanding unsecured and interest-bearing loans and advances to associates (nil for the Parent Bank) presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between five to seven years. Total collections on loans and advances amounted to P487 and P13 in 2016 and 2015, respectively.

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

(iii) Transaction of the Parent Bank with related parties under common ownership:

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

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows (see Note 24.1):

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

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

26. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not resources of the BDO Unibank Group (see Note 33.3).

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

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

(a) Investment in government securities which are shown as part of AFS securities (see Note 9) with a total face value of P11,249 and P9,667 as of December 31, 2016 and 2015, respectively, in BDO Unibank Group and P7,650 and P6,865 as of December 31, 2016 and 2015, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2016 and 2015, the additional reserve for trust functions amounted to P240 and P215, respectively, for BDO Unibank Group and P182 and P171 respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 20.5).

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

27. UNIT-LINKED FUNDS

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

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

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

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

28. MERGERS AND ACQUISITIONS

28.1 Subscription of Additional Shares in CBN Grupo

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

28.2 Acquisition of Credit Card Portfolio

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

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

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

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

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

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

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

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

28.4 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHCI. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

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

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

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

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

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

Cash and cash equivalents	P 851
Trading and investment securities	25,882
Loans and other receivables	563
Bank premises, furniture, fixtures and equipment	54
Other resources	104
Total resources	27,454
Insurance contract liabilities	17,910
Other liabilities	3,173
Total liabilities	21,083
Net assets acquired (brought forward)	P 6,371

Net assets acquired (carried forward)	P	6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

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

28.5 Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities. Subsequently, PCIB Securities was renamed as BDO Nomura.

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

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

28.7 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%. The total goodwill recognized in 2015 amounting to P2,903 is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 13.3).

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

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

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

Cash and cash equivalents	P 3,294
Trading and investment securities	2,457
Loans and other receivables	20,532
Bank premises, furniture, fixtures and equipment	1,510
Other resources	403
Total resources	28,196
Deposit liabilities	20,920
Other liabilities	3,478
Total liabilities	24,398
Net asset position	3,798
Non-controlling share in equity	(14)
Cost of investment	(6,687)
Goodwill (see Note 13.3)	P 2,903

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

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

On August 8, 2014, the Parent Bank and TRB executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Parent Bank recognized the fair value of assets and liabilities of TRB as presented below.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		10
Total resources		2,491
Deposit liabilities		6,922
Bills payable		11
Other liabilities		185
Total liabilities		7,118
Net liability position	P	4,627

As settlement on the net liability position assumed by the Parent Bank, the majority shareholder/s of TRB will shoulder the P2,000 deficiency, through a term loan covered by acceptable hard assets, while the remaining deficiency is recognized by the Parent Bank as part of Branch licenses as granted by the BSP (see Note 13.4). In 2015, the P2,000 deficiency was settled through issuance of term loan under contract-to-sell financing. As of December 31, 2016 and 2015, the outstanding balance amounted to P1,916 and P2,000 respectively, and is presented as part of Loans and discounts under Loans and Other Receivables account in the statements of financial position (see Note 10).

28.9 Acquisition of Trust Business

On February 21, 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 33.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13.8).

29. TAXES

29.1 Current and Deferred Taxes

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

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

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

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

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

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

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

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

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

BDO Unibank Group

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

Parent Bank

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

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

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2016	P 20	P 11	2019
2015	8	12	2018
2014	689	8	2017
	P 717	P 31	

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

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

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

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

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

29.2 Gross Receipts Tax

On January 29, 2004, Republic Act (RA) No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

29.3 Documentary Stamp Tax

Documentary Stamp Tax (DST) (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 17, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 75 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;

- Fixed income and other securities traded in the secondary market or through an exchange;

- Derivatives including repurchase agreements and reverse repurchase agreements;

- Bank deposit accounts without a fixed term or maturity; and,

- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

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

The BIR issued Revenue Regulations (RR) 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

30. EARNINGS PER SHARE

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

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

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

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

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

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

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

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

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

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

* *Net profit of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted.*

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

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

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

	2016	2015	2014
BDO Unibank Group			
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**12.4%**	13.3%	14.4%

* *Computed using balances prepared under PFRS*

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

	2016	2015	2014
Parent Bank			
Profit margin:			
Net profit / Revenues	**23.0 %**	25.7%	25.9%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**11.4%**	12.2%	13.1%

* *Computed using balances prepared under PFRS*

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

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

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

32.1 Stock Rights Offering

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

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

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

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

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

32.3 Dividends

On January 27, 2017, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P340. The dividends will be paid within 60 days from dividend declaration date.

33. COMMITMENTS AND CONTINGENCIES

33.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2016, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

33.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

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

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

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

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

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

33.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

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

The case remains pending as of December 31, 2016.

33.1.3 First e-Bank

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

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

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

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

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

The case remains pending as of December 31, 2016.

33.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2016, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

33.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P2,846, P2,569 and P2,199 in 2016, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P2,670, P2,415 and P2,131 in 2016, 2015 and 2014, respectively, in the Parent Bank's financial statements (see Note 23).

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

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

33.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2016 and 2015, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

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

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

See Notes to Financial Statements.

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)

	Notes	BDO Unibank Group 2015	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2015	Parent Bank 2014	Parent Bank 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)

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 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)

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

	Notes	BDO Unibank Group 2015	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2015	Parent Bank 2014	Parent Bank 2013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**(P 33,976)**	(P 27,711)	P 280,172	**(P 47,171)**	(P 15,004)	P 261,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**41,342**	27,824	21,539	**41,237**	27,736	21,512
Due from Bangko Sentral ng Pilipinas	7	**269,542**	408,383	156,591	**258,416**	384,361	151,303
Due from other banks	8	**45,621**	26,939	12,645	**43,165**	24,655	11,488
Securities purchased under reverse repurchase agreement	10	**86,173**	8,407	941	**86,173**	8,407	-
Foreign currency notes and coins	13	**3,406**	2,242	1,907	**3,406**	2,242	1,907
		446,084	473,795	193,623	**432,397**	447,401	186,210
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**42,729**	41,342	27,824	**41,767**	41,237	27,736
Due from Bangko Sentral ng Pilipinas	7	**271,808**	269,542	408,383	**260,841**	258,416	384,361
Due from other banks	8	**24,837**	45,621	26,939	**20,944**	43,165	24,655
Securities purchased under reverse repurchase agreement	10	**69,490**	86,173	8,407	**58,431**	86,173	8,407
Foreign currency notes and coins	13	**3,244**	3,406	2,242	**3,243**	3,406	2,242
		P 412,108	P 446,084	P 473,795	**P 385,226**	P 432,397	P 447,401

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

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

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

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

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

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

Other Information

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

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

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

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

1.2 Approval of Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

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

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

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

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the BDO Unibank Group's financial statements since BDO Unibank Group's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

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

Annual Improvements to PFRS (2010-2012 Cycle)

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

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

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

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

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

Annual Improvements to PFRS (2011-2013 Cycle)

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

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

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

(b) *Effective Subsequent to 2015 but not Adopted Early*

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

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendment), Property, Plant and Equipment and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

(iii) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9. As of the end of the reporting period, BDO Unibank Group has no plan to change the accounting policy for its investments in subsidiaries and associates.

(iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

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

(vi) PFRS 10 (Amendment), *Consolidated Financial Statements - Investment Entities: Applying the consolidation exception* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(vii) PFRS 11 (Amendment), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(viii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

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

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

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

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

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

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

(ix) Annual improvements to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016. Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect those to have material impact on the BDO Unibank Group's financial statements:

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

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

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

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

2.3 Basis of Consolidation

The Parent Bank obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in resources are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

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

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

(a) *Investments in Subsidiaries*

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

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

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

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

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

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

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

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

(b) Transactions with Non-controlling Interests

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

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

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

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2015	2014	2013
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	**98.82%**	98.82%	98.82%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	**99.99%**	99.99%	-
Rural Bank			
One Network Bank, Inc. (A Rural Bank) (ONB)	**99.63%**	-	-
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**100%**	100%	100%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**88.54%**	88.54%	88.54%
Averon Holdings Corporation (Averon)	**100%**	100%	100%
BDO Rental, Inc. (BDO Rental)	**88.54%**	88.54%	88.54%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**100%**	100%	100%
PCIB Securities, Inc. (PCIB Securities)	**100%**	100%	100%
Armstrong Securities, Inc. (ASI)	**80.00%**	80.00%	80.00%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60.00%**	60.00%	60.00%
Insurance Companies			
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
PCIB Europe S.p.A.	**100%**	100%	100%
Express Padala Frankfurt GmbH	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	100%	-
BDO Remit (Canada) Ltd.	**100%**	100%	-
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
CBN Grupo International Holdings B.V. (CBN Grupo)	**60.00%**	60.00%	60.00%

Subsidiaries	Percentage of Ownership 2015	2014	2013
Others			
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2015 and 2014 represent the interests not held by BDO Unibank Group in ONB (nil in 2014), BDO Savings, BDO Leasing, BDO Rental, BDO Elite, Equimark, CBN Grupo and ASI. In 2015, BDO Capital initiated the consolidation of BDO Elite and BDO Savings under a three way merger transaction (see Note 26.3).

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to BDO Unibank Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of BDO Unibank Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets, which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

Financial assets, which are recognized when BDO Unibank Group becomes a party to contractual terms of the financial instrument, include cash and other financial instruments. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32. All other non-derivative financial instruments are treated as debt instruments.

2.5.1 Classification and Measurement of Financial Assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the four categories of financial assets is as follows:

(a) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as HFT unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, equity securities and government and private debt securities.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents consist of cash, due from BSP and amounts due from other banks. Loans and other receivables includes loans to customers, interbank loans receivables, Securities Purchased Under Reverse Repurchase Agreement (SPURRA), sales contract receivables, and all receivables from customers and other banks. Loans and other receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, foreign currency notes and coins (FCNC) and SPURRA with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

(c) *HTM Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consisted of government and private debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

(d) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. BDO Unibank Group's AFS securities include government and corporate bonds, equity securities and golf club shares.

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

2.5.2 Impairment of Financial Assets

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified yet with the individual financial assets in the group. BDO Unibank Group recognizes impairment loss based on the category of financial assets as shown in the succeeding page.

(a) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as Miscellaneous – net under Other Operating Income account in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses account.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of Republic Act No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

- clean loans and advances past due for a period of more than six months;
- past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly receivables related to financing.

(b) *Carried at Cost – AFS Financial Assets*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(c) *Carried at Fair Value – AFS Financial Assets*

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

2.5.3 Items of Income and Expense Related to Financial Assets

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gains under Other Operating Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

2.5.4 Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the BDO Unibank Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the BDO Unibank Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

BDO Unibank Group is a party to various foreign currency forwards, cross-currency swaps and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Certain derivatives may be designated as either: *(i)* hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, *(ii)* hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument depends on the hedging relationship designated by BDO Unibank Group.

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of financial position, net of applicable deferred tax.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 - 50 years
Leasehold rights and improvements	5 years
Furniture, fixtures and equipment	3 - 5 years

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.23).

The residual values and estimated useful lives of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 - 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.23).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 22).

2.9 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which is determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land.

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal (see Note 22).

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

BDO Unibank Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond BDO Unibank Group's control and there is sufficient evidence that BDO Unibank Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in profit or loss (see Note 22).

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.23). Associates are all entities over which BDO Unibank Group has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings (Losses) of Associates account presented as part of Miscellaneous – net under Other Operating Income (Expenses) in the BDO Unibank Group's statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.23).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the BDO Unibank Group, as applicable. However, when the BDO Unibank Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BDO Unibank Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are carried at cost, less any impairment losses (see Note 2.23).

2.12 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.23). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interests method.

2.13 Prepayments and Other Resources

Prepayments and other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably.

2.14 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.23). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life.
It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.23).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and is tested annually for any impairment (see Note 2.23).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment in accordance with PAS 36 by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.23).

Branch licenses and customer lists are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate cash inflows for BDO Unibank Group.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.15 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and subordinated notes payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivatives with negative fair values are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Lease deposits from operating and finance leases (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day one gain and is included as part of Miscellaneous – net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888.

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.16 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.17 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 19.6).

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized fair value gains (losses) on AFS securities arises from cumulative mark-to-market valuation of outstanding AFS securities.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets.

Accumulated translation adjustment pertains to exchange differences arising on translation of the resources and liabilities of foreign subsidiaries that are taken up in other comprehensive income (see Note 2.24).

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

Other reserves pertain to amount recognized from increase in percentage of ownership of any of the subsidiaries of BDO Unibank Group (see Note 19.6).

2.19 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between BDO Unibank Group and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan (see Note 24).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.20 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all financial assets or liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

(b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

(i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

(ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(iii) *Arranger fees* arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(c) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(d) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.

(e) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income account.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

(f) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

(g) *Rental income* – Rental income arising from leased properties accounted for as operating lease is recognized on a straight-line basis over the lease terms and is recorded in profit or loss as part of Miscellaneous under Other Operating Income account (see Note 2.22).

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(i)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.21 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g., legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss on a straight-line basis over the lease term.

(b) BDO Unibank Group as Lessee

Leases, which do not transfer to BDO Unibank Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expense as incurred.

BDO Unibank Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.23 Impairment of Non-financial Assets

BDO Unibank Group's real properties for development and sale, equity investments, goodwill, branch licenses, trading rights and customer lists recorded as part of Other Resources, premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.24 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branch and subsidiaries which are maintained in U.S. dollars, European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY) or Hong Kong dollars (HKD).

The operating results and financial position of foreign branch and subsidiaries which are measured using the U.S. dollars, Euro, GBP, JPY or HKD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

i. Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

iii. All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.18). When a foreign operation is sold, the cumulative amount of exchange differences are recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY or HKD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.25 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows (see Note 23):

(a) Post-employment Defined Benefit

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Others under Interest Expense in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by BDO Unibank Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) *Bonus Plans*

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(e) *Executive Stock Option Plan*

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years (vesting period) starting from the date of the approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is included as part of Compensation and benefits under the Other Operating Expenses account in the statement of income.

(f) *Unavailed Leaves*

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO under (a) in the previous page.

2.26 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which BDO Unibank Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 27).

2.27 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.28 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.29 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about BDO Unibank Group's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying BDO Unibank Group's accounting policies, management has made the judgments, shown below and in the succeeding pages apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2013, BDO Unibank Group reclassified its HTM investments to AFS securities. Accordingly, the rest of the HTM portfolio was reclassified to AFS securities in accordance with PAS 39 (see Note 9.3).

(b) *Evaluating Impairment of AFS Securities*

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2015 and 2014 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) *Distinguishing Investment Properties and Owner-occupied Properties*

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) *Distinguishing Operating and Finance Leases*

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(e) *Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other Properties*

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PAS 39 or as Other properties (presented under Other resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.21 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) *Estimating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)*

BDO Unibank Group reviews its AFS securities, HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

BDO Unibank Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if BDO Unibank Group had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) Determining Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates. BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(d) Estimating Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Properties

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other properties are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2015 and 2014, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties during those years.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Properties

Investment Properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition. BDO Unibank Group engages services of professional external or internal appraisers applying the relevant valuation methodologies as discussed in Note 6.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(f) Determining Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2015 and 2014 is disclosed in Note 27.1.

(g) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.23. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

(h) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 23.

(i) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 18.

4. RISK MANAGEMENT

By their nature, BDO Unibank Group's activities are principally related to the use of financial instruments including derivatives. BDO Unibank Group accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn above average interest margins by investing these funds in high-quality assets. BDO Unibank Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. BDO Unibank Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price risks), credit and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital. BDO Unibank Group's Risk Management Committee (RMC) has overall responsibility for BDO Unibank Group's risk management systems and sets risk management policies across the full range of risks to which BDO Unibank Group is exposed. Specifically, BDO Unibank Group's RMC places limits on the level of exposure that can be taken in trading positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing BDO Unibank Group's statement of financial position, including BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the BDO Unibank Group's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

RMG has responsibility for the setting of risk policies across the full range of risks to which BDO Unibank Group is exposed.

In the performance of its function, RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.

- It disseminates the approved policies to the relevant businesses/functions including authorities delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. RMG then performs compliance review to ensure approved policies are adhered to.

- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.

- When adverse trends are observed in the account/portfolio, RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- RMG is responsible for the direct management of non-performing loan (NPL) accounts under its supervision and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2015 and 2014 in accordance with account classification of the BSP, is presented below. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2015				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 42,729	P -	P -	P -	P 42,729
Due from BSP and other banks	296,458	185	2	-	296,645
Loans and other receivables - net	416,421	118,609	222,848	624,874	1,382,752
Trading and investment Securities	9,672	22,205	41,375	152,507	225,759
Other resources*	3,245	-	-	80,124	83,369
Total Resources	768,525	140,999	264,225	857,505	2,031,254
Liabilities and Equity:					
Deposit liabilities	331,638	4,139	11,247	1,316,829	1,663,853
Bills and subordinated notes payable	39,319	16,077	40,974	11,203	107,573
Other liabilities	16,287	1,204	2,528	40,196	60,215
Total Liabilities	387,244	21,420	54,749	1,368,228	1,831,641
Equity	-	-	-	199,613	199,613
Total Liabilities and Equity	387,244	21,420	54,749	1,567,841	2,031,254
On-book gap	381,281	119,579	209,476	(710,336)	-
Cumulative on-book gap	381,281	500,860	710,336	-	-
Contingent assets	119,599	21,603	33,051	29,202	203,455
Contingent liabilities	179,137	26,887	38,036	27,256	271,316
Off-book gap	(59,538)	(5,284)	(4,985)	1,946	(67,861)
Net Periodic Gap	321,743	114,295	204,491	(708,390)	-
Cumulative Total Gap	**P 321,743**	**P 436,038**	**P 640,529**	**(P 67,861)**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

BDO Unibank Group

	2014				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,342	P -	P -	P -	P 41,342
Due from BSP and other banks	314,788	352	19	4	315,163
Loans and other receivables - net	453,499	134,949	149,859	474,623	1,212,930
Trading and investment Securities	11,387	5,512	54,301	150,310	221,510
Other resources*	6,771	2,114	-	63,819	72,704
Total Resources	827,787	142,927	204,179	688,756	1,863,649
Liabilities and Equity:					
Deposit liabilities	454,731	11,564	7,846	1,018,141	1,492,282
Bills and subordinated notes payable	47,948	2,372	55,066	5,005	110,391
Other liabilities	21,950	1,107	2,056	56,194	81,307
Total Liabilities	524,629	15,043	64,968	1,079,340	1,683,980
Equity	-	-	-	179,669	179,669
Total Liabilities and Equity	524,629	15,043	64,968	1,259,009	1,863,649
On-book gap	303,158	127,884	139,211	(570,253)	-
Cumulative on-book gap	303,158	431,042	570,253	-	-
Contingent assets	185,404	28,324	53,469	41,039	308,236
Contingent liabilities	216,686	29,243	60,510	39,824	346,263
Off-book gap	(31,282)	(919)	(7,041)	1,215	(38,027)
Net Periodic Gap	271,876	126,965	132,170	(569,038)	-
Cumulative Total Gap	P 271,876	P 398,841	P 531,011	(P 38,027)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2015				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 41,767	P -	P -	P -	P 41,767
Due from BSP and other banks	281,785	-	-	-	281,785
Loans and other receivables - net	393,815	103,772	199,021	626,703	1,323,311
Trading and investment Securities	4,483	20,745	36,935	134,337	196,500
Other resources*	3,244	-	-	83,396	86,640
Total Resources	725,094	124,517	235,956	844,436	1,930,003
Liabilities and Equity:					
Deposit liabilities	313,766	3,483	10,103	1,275,695	1,603,047
Bills and subordinated notes payable	23,650	15,674	36,371	11,202	86,897
Other liabilities	15,386	-	-	33,984	49,370
Total Liabilities	352,802	19,157	46,474	1,320,881	1,739,314
Equity	-	-	-	190,689	190,689
Total Liabilities and Equity	352,802	19,157	46,474	1,511,570	1,930,003
On-book gap	372,292	105,360	189,482	(667,134)	-
Cumulative on-book gap	369,048	477,652	667,134	-	-
Contingent assets	110,458	17,240	11,412	7,739	146,849
Contingent liabilities	169,875	22,659	16,696	6,001	215,231
Off-book gap	(59,417)	(5,419)	(5,284)	1,738	(68,382)
Net Periodic Gap	312,875	99,941	184,198	(662,152)	-
Cumulative Total Gap	**P 312,875**	**P 412,816**	**P 597,014**	**(P 68,382)**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2014				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 41,237	P -	P -	P -	P 41,237
Due from BSP and other banks	301,577	-	-	4	301,581
Loans and other receivables - net	450,461	128,662	137,660	465,401	1,182,184
Trading and investment Securities	9,402	4,570	46,109	135,368	195,449
Other resources*	6,484	2,113	-	64,025	72,622
Total Resources	809,161	135,345	183,769	664,798	1,793,073
Liabilities and Equity:					
Deposit liabilities	435,115	11,280	7,222	1,010,472	1,464,089
Bills and subordinated notes payable	35,298	1,819	46,238	11,744	95,099
Other liabilities	21,122	-	-	44,236	65,358
Total Liabilities	491,535	13,099	53,460	1,066,452	1,624,546
Equity	-	-	-	168,527	168,527
Total Liabilities and Equity	491,535	13,099	53,460	1,234,979	1,793,073
On-book gap	317,626	122,246	130,309	(570,181)	-
Cumulative on-book gap	317,626	439,872	570,181	-	-
Contingent assets	174,670	20,486	12,294	1,212	208,662
Contingent liabilities	198,922	21,621	20,191	1,210	241,944
Off-book gap	(24,252)	(1,135)	(7,897)	2	(33,282)
Net Periodic Gap	293,374	121,111	122,412	(570,179)	-
Cumulative Total Gap	P 293,374	P 414,485	P 536,897	(P 33,282)	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure during the day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2015 and 2014 follows:

BDO Unibank Group

	2015			2014		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 64**	**P 314,473**	**P 314,537**	P 33	P 310,851	P 310,884
Due from other banks	**24,453**	**384**	**24,837**	45,200	421	45,621
Trading and investment securities:						
At FVTPL	**3,513**	**10,054**	**13,567**	2,242	6,526	8,768
AFS securities	**151,029**	**61,163**	**212,192**	154,132	58,610	212,742
Loans and other receivables	**240,412**	**1,142,340**	**1,382,752**	206,944	1,005,986	1,212,930
Other resources	**5,020**	**5,367**	**10,387**	3,407	4,544	7,951
	P 424,491	**P 1,533,781**	**P 1,958,272**	P 411,958	P 1,386,938	P 1,798,896
Liabilities:						
Deposit liabilities	**P 316,526**	**P 1,347,327**	**P 1,663,853**	P 291,809	P 1,200,473	P 1,492,282
Bills payable	**76,865**	**20,678**	**97,543**	85,000	15,361	100,361
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**1,372**	**54,741**	**56,113**	2,287	76,198	78,485
	P 394,763	**P 1,432,776**	**P 1,827,539**	P 379,096	P 1,302,062	P 1,681,158

Parent Bank

	2015			2014		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P -**	**P 302,608**	**P 302,608**	P -	P 299,653	P 299,653
Due from other banks	**20,875**	**69**	**20,944**	43,092	73	43,165
Trading and investment securities:						
At FVTPL	**2,237**	**3,179**	**5,416**	1,993	3,320	5,313
AFS securities	**144,109**	**46,975**	**191,084**	147,136	43,000	190,136
Loans and other receivables	**241,803**	**1,081,508**	**1,323,311**	207,840	974,344	1,182,184
Other resources	**3,249**	**7,707**	**10,956**	3,407	4,202	7,609
	P 412,273	**P 1,442,046**	**P 1,854,319**	P 403,468	P 1,324,592	P 1,728,060
Liabilities:						
Deposit liabilities	**P 306,278**	**P 1,296,769**	**P 1,603,047**	P 284,653	P 1,179,436	P 1,464,089
Bills payable	**76,843**	**24**	**76,867**	85,000	69	85,069
Subordinated notes payable	**-**	**10,030**	**10,030**	-	10,030	10,030
Other liabilities	**1,073**	**44,662**	**45,735**	2,104	60,788	62,892
	P 384,194	**P 1,351,485**	**P 1,735,679**	P 371,757	P 1,250,323	P 1,622,080

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2015 and 2014 based on the expected interest realization or recognition are shown in the succeeding pages.

BDO Unibank Group

	2015					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 42,729	P 42,729
Due from BSP and other banks	10,682	120	2	-	285,841	296,645
Loans and other receivables	790,258	106,943	308,596	173,859	3,096	1,382,752
Trading and investment securities	3,919	22,206	110,183	75,885	13,566	225,759
Other resources*	-	-	-	-	83,369	83,369
Total Resources	804,859	129,269	418,781	249,744	428,601	2,031,254
Liabilities and Equity:						
Deposit liabilities	415,735	36,683	100,035	16,471	1,094,929	1,663,853
Bills and subordinated notes payable	42,600	16,148	38,466	10,008	351	107,573
Other liabilities	4,677	2,063	6,346	71	47,058	60,215
Total Liabilities	463,012	54,894	144,847	26,550	1,142,338	1,831,641
Equity	-	-	-	-	199,613	199,613
Total Liabilities and Equity	463,012	54,894	144,847	26,550	1,341,951	2,031,254
On-book gap	341,847	74,375	273,934	223,194	(913,350)	-
Cumulative on-book gap	341,847	416,222	690,156	913,350	-	-
Contingent assets	17,412	-	-	-	-	17,412
Contingent liabilities	17,318	-	-	-	-	17,318
Off-book gap	94	-	-	-	-	94
Net Periodic Gap	341,941	74,375	273,934	223,194	(913,350)	-
Cumulative Total Gap	**P 341,941**	**P 416,316**	**P 690,250**	**P 913,444**	**P 94**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

BDO Unibank Group

	2014					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,342	P 41,342
Due from BSP and other banks	35,045	342	19	-	279,757	315,163
Loans and other receivables	777,650	89,898	209,143	135,267	972	1,212,930
Trading and investment securities	6,880	5,512	116,052	87,931	5,135	221,510
Other resources*	-	-	-	-	72,704	72,704
Total Resources	819,575	95,752	325,214	223,198	399,910	1,863,649
Liabilities and Equity:						
Deposit liabilities	454,444	32,694	77,225	20,652	907,267	1,492,282
Bills and subordinated notes payable	49,049	2,804	48,477	10,061	-	110,391
Other liabilities	10,424	1,806	4,316	80	64,681	81,307
Total Liabilities	513,917	37,304	130,018	30,793	971,948	1,683,980
Equity	-	-	-	-	179,669	179,669
Total Liabilities and Equity	513,917	37,304	130,018	30,793	1,151,617	1,863,649
On-book gap	305,658	58,448	195,196	192,405	(751,707)	-
Cumulative on-book gap	305,658	364,106	559,302	751,707	-	-
Contingent assets	32,204	2,035	-	-	-	34,239
Contingent liabilities	32,198	2,012	-	-	-	34,210
Off-book gap	6	23	-	-	-	29
Net Periodic Gap	305,664	58,471	195,196	192,405	(751,707)	-
Cumulative Total Gap	P 305,664	P 364,135	P 559,331	P 751,736	P 29	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2015					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,767	P 41,767
Due from BSP and other banks	6,233	-	-	-	275,552	281,785
Loans and other receivables	776,947	89,137	283,603	173,624	-	1,323,311
Trading and investment securities	778	20,745	101,063	68,498	5,416	196,500
Other resources*	-	-	-	-	86,640	86,640
Total Resources	783,958	109,882	384,666	242,122	409,375	1,930,003
Liabilities and Equity:						
Deposit liabilities	381,562	34,617	95,699	16,471	1,074,698	1,603,047
Bills and subordinated notes payable	23,650	15,674	37,565	10,008	-	86,897
Other liabilities	-	-	-	-	49,370	49,370
Total Liabilities	405,212	50,291	133,264	26,479	1,124,068	1,739,314
Equity	-	-	-	-	190,689	190,689
Total Liabilities and Equity	405,212	50,291	133,264	26,479	1,314,757	1,930,003
On-book gap	378,746	59,591	251,402	215,643	(905,382)	-
Cumulative on-book gap	378,746	438,337	689,739	905,382	-	-
Contingent assets	12,687	-	-	-	-	12,687
Contingent liabilities	12,612	-	-	-	-	12,612
Off-book gap	75	-	-	-	-	75
Net Periodic Gap	378,821	59,591	251,402	215,643	(905,382)	-
Cumulative Total Gap	**P 378,821**	**P 438,412**	**P 689,814**	**P 905,457**	**P 75**	**P -**

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Parent Bank

	2014					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,237	P 41,237
Due from BSP and other banks	27,594	-	-	-	273,987	301,581
Loans and other receivables	775,241	83,717	192,091	131,135	-	1,182,184
Trading and investment securities	5,239	4,570	108,309	73,148	4,183	195,449
Other resources	-	-	-	-	72,622	72,622
Total Resources	808,074	88,287	300,400	204,283	392,029	1,793,073
Liabilities and Equity:						
Deposit liabilities	432,887	31,989	75,762	20,653	902,798	1,464,089
Bills and subordinated notes payable	35,356	1,819	47,864	10,060	-	95,099
Other liabilities	6,484	-	-	-	58,874	65,358
Total Liabilities	474,727	33,808	123,626	30,713	961,672	1,624,546
Equity	-	-	-	-	168,527	168,527
Total Liabilities and Equity	474,727	33,808	123,626	30,713	1,130,199	1,793,073
On-book gap	333,347	54,479	176,774	173,570	(738,170)	-
Cumulative on-book gap	333,347	387,826	564,600	738,170	-	-
Contingent assets	30,636	2,035	-	-	-	32,671
Contingent liabilities	30,633	2,012	-	-	-	32,645
Off-book gap	3	23	-	-	-	26
Net Periodic Gap	333,350	54,502	176,774	173,570	(738,170)	-
Cumulative Total Gap	P 333,350	P 387,852	P 564,626	P 738,196	P 26	P -

* *Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

BDO Unibank Group's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. BDO Unibank Group uses the VaR model to estimate the daily potential loss that BDO Unibank Group can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in BDO Unibank Group's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. BDO Unibank Group uses a 99% confidence level and a 260-day observation period in VaR calculation. BDO Unibank Group's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in BDO Unibank Group's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon BDO Unibank Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2015		2014	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 10)**	**(P 165)**	(P 21)	(P 267)
Interest rate risk – Peso	**(86)**	**(733)**	(33)	(455)
Interest rate risk – USD	**(9)**	**(182)**	(10)	(329)
	(P 105)	**(P 1,080)**	(P 64)	(P 1,051)

Parent Bank

	2015		2014	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 10)**	**(P 162)**	(P 21)	(P 267)
Interest rate risk – Peso	**(66)**	**(587)**	(25)	(281)
Interest rate risk – USD	**(8)**	**(170)**	(10)	(283)
	(P 84)	**(P 919)**	(P 56)	(P 831)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2015 and 2014 is shown below.

BDO Unibank Group

	2015			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,335)**	**P 3,335**	**(P 1,668)**	**P 1,668**
As a percentage of the BDO Unibank Group's net interest income for 2015	**(5.9%)**	**5.9%**	**(2,9%)**	**2.9%**
Earnings-at-risk	**P 8,254**			

	2014			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 3,054)	P 3,054	(P 1,527)	P 1,527
As a percentage of the BDO Unibank Group's net interest income for 2014	(6.0%)	6.0%	(3.0%)	3.0%
Earnings-at-risk	P 1,419			

Parent Bank

	2015			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,656)**	**P 3,656**	**(P 1,828)**	**P 1,828**
As a percentage of the Parent Bank's net interest income for 2015	**(6.7%)**	**6.7%**	**(3.4%)**	**3.4%**
Earnings-at-risk	**P 8,929**			

	2014			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 3,350)	P 3,350	(P 1,675)	P 1,675
As a percentage of the Parent Bank's net interest income for 2014	(6.8%)	6.8%	(3.4%)	3.4%
Earnings-at-risk	P 1,535			

4.2.3 Price Risk

BDO Unibank Group is exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group classified on the statement of financial position either as AFS securities, HFT securities or financial assets at FVTPL. BDO Unibank Group is not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as HFT, financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index, which was 2.70% in 2015 and 2014 for securities classified as HFT securities, financial assets at FVTPL and AFS securities, with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on net profit after tax increase (decrease)		**Impact on other comprehensive income increase (decrease)**	
	2015	2014	**2015**	2014
HFT securities and Financial assets at FVTPL	**P 8**	P 12	**P -**	P -
AFS financial assets	**-**	-	**211**	110
	P 8	P 12	**P 211**	P 110

Parent Bank

	Impact on net profit after tax increase (decrease)		**Impact on other comprehensive income increase (decrease)**	
	2015	2014	**2015**	2014
AFS financial assets	**P -**	P -	**P 145**	P 154

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. It manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

The RMG also undertakes portfolio management by reviewing BDO Unibank Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

4.3.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) Adversely Classified

i. Loans Especially Mentioned (LEM)

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

ii. Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cashflow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

iii. Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

iv. Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

The following table shows the exposure to credit risk as of December 31, 2015 and 2014 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2015		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities***
Carrying Amount	P 1,382,752	P 24,837	P 217,541
Individually Impaired			
Grade B: Watchlisted	P 5,024	P -	P -
Grade C: LEM	12,895	-	-
Grade D: Substandard	2,165	-	-
Grade E: Doubtful	1,421	-	1,061
Grade F: Loss	4,302	-	263
Gross amount	25,807	-	1,324
Allowance for impairment	(7,842)	-	(1,324)
Carrying amount	17,965	-	-
Collectively Impaired			
Unclassified	1,030	-	-
Grade C: LEM	7,997	-	-
Grade D: Substandard	3,456	-	-
Grade E: Doubtful	851	-	-
Grade F: Loss	3,273	-	-
Gross amount	16,607	-	-
Allowance for impairment	(5,488)	-	
Carrying amount	11,119	-	-
Past Due But Not Impaired			
Unclassified	1,635	-	-
Neither Past Due Nor Impaired			
Unclassified	1,352,033	24,837	217,541
Total Carrying Amount	P 1,382,752	P 24,837	P 217,541

**Trading and Investment Securities do not include equity securities.*

BDO Unibank Group

	2014		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,212,930	P 45,621	P 211,353
Individually Impaired			
Grade C: LEM	11,873	-	-
Grade D: Substandard	1,625	-	-
Grade E: Doubtful	2,083	-	1,008
Grade F: Loss	5,296	-	262
Gross amount	20,877	-	1,270
Allowance for impairment	(7,164)	-	(1,270)
Carrying amount	13,713	-	-
Collectively Impaired			
Unclassified	275	-	17,941
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,439	-	17,941
Allowance for impairment	(4,961)	-	(121)
Carrying amount	7,478	-	17,820
Past Due But Not Impaired			
Unclassified	1,275	-	-
Neither Past Due Nor Impaired			
Unclassified	1,190,464	45,621	193,533
Total Carrying Amount	P 1,212,930	P 45,621	P 211,353

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,015**	P 718
31 to 60 days	**516**	296
61 to 90 days	**31**	232
91 to 180 days	**73**	11
More than 180 days	**-**	18
	P 1,635	P 1,275

An aging of neither past due nor impaired accounts of BDO Unibank Group reckoned from the last payment date follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,330,278**	P 1,167,276
31 to 60 days	**3,561**	2,100
61 to 90 days	**18,194**	21,088
	P 1,352,033	P 1,190,464

Parent Bank

	2015		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities***
Carrying Amount	**P 1,323,311**	**P 20,944**	**P 192,006**
Individually Impaired			
Grade B: Watchlisted	P 3,580	P -	P -
Grade C: LEM	12,025	-	-
Grade D: Substandard	1,960	-	-
Grade E: Doubtful	1,211	-	1,061
Grade F: Loss	4,157	-	263
Gross amount	22,933	-	1,324
Allowance for impairment	(6,565)	-	(1,324)
Carrying amount	16,368	-	-
Collectively Impaired			
Unclassified	-	-	-
Grade C: LEM	7,997	-	-
Grade D: Substandard	3,456	-	-
Grade E: Doubtful	851	-	-
Grade F: Loss	3,273	-	-
Gross amount	15,577	-	-
Allowance for impairment	(5,301)	-	
Carrying amount	10,276	-	-
Past Due But Not Impaired			
Unclassified	1,546	-	-
Neither Past Due Nor Impaired			
Unclassified	1,295,121	20,944	192,006
Total Carrying Amount	**P 1,323,311**	**P 20,944**	**P 192,006**

**Trading and Investment Securities do not include equity securities.*

Parent Bank

	2014		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities*
Carrying Amount	P 1,182,184	P 43,165	P 189,060
Individually Impaired			
Grade C: LEM	P 11,086	P -	P -
Grade D: Substandard	1,319	-	-
Grade E: Doubtful	1,899	-	1,008
Grade F: Loss	5,141	-	262
Gross amount	19,445	-	1,270
Allowance for impairment	(6,921)	-	(1,270)
Carrying amount	12,524	-	-
Collectively Impaired			
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,164	-	-
Allowance for impairment	(4,646)	-	-
Carrying amount	7,518	-	-
Past Due But Not Impaired			
Unclassified	1,246	-	-
Neither Past Due Nor Impaired			
Unclassified	1,160,896	43,165	189,060
Total Carrying Amount	P 1,182,184	P 43,165	P 189,060

**Trading and Investment Securities do not include equity securities.*

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	Loans and Other Receivables	
	2015	2014
Up to 30 days	**P 1,010**	P 718
31 to 60 days	**515**	293
61 to 90 days	**19**	219
91 to 180 days	**2**	1
More than 180 days	**-**	15
	P 1,546	P 1,246

An aging of neither past due nor impaired accounts of Parent Bank reckoned from the last payment date as follows:

	Loans and Other Receivables			
	2015		2014	
Up to 30 days	**P**	**1,291,980**	P	1,159,060
31 to 60 days		**2,951**		1,830
61 to 90 days		**190**		6
	P	**1,295,121**	P	1,160,896

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P41,888 and P132,385, respectively, for 2015 and P54,109 and P121,794, respectively, for 2014 in BDO Unibank Group' financial statements and P41,876 and P132,192, respectively, for 2015 and P54,109 and P121,575, respectively, for 2014 in the Parent Bank financial statements (see Note 31.3).

4.3.2 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. BDO Unibank Group holds collateral against loans and other receivables in the form of property, debt securities, equity securities, hold-out deposits and others.

Estimate of the fair value of collateral and other security enhancements held against the following loans and other receivables risk groupings as of December 31 follows:

	BDO Unibank Group				**Parent Bank**			
	2015		2014		**2015**		2014	
Individually impaired								
Property	**P**	**9,708**	P	7,301	**P**	**8,852**	P	5,464
Equity security		**2,571**		4,232		**2,571**		3,845
Hold-out deposits		**29**		27		**29**		27
Debt security		**1**		-		**1**		-
Others		**1,289**		1,224		**1,289**		1,224
		13,598		12,784		**12,742**		10,560
Collectively impaired								
Property		**7,146**		7,746		**7,146**		7,746
Hold-out deposits		**-**		2		**-**		2
Others		**6,417**		3,807		**6,417**		3,807
		13,563		11,555		**13,563**		11,555
Balance carried forward	**P**	**27,161**	P	24,339	**P**	**26,305**	P	22,115

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance brought forward	**P 27,161**	P 24,339	**P 26,305**	P 22,115
Past due but not impaired				
Property	**1,692**	2,231	**1,674**	2,210
Hold-out deposits	**13**	27	**13**	27
Debt security	**-**	6	**-**	6
Others	**1,491**	584	**1,491**	584
	3,196	2,848	**3,178**	2,827
Neither past due nor impaired				
Property	**457,885**	433,182	**412,119**	409,090
Equity security	**127,999**	152,214	**127,036**	151,934
Hold-out deposits	**78,696**	78,709	**78,696**	78,709
Debt security	**1,762**	4,532	**1,466**	4,101
Others	**334,996**	389,866	**334,655**	389,798
	1,001,338	1,058,503	**953,972**	1,033,632
	P 1,031,695	P 1,085,690	**P 983,455**	P 1,058,574

As of December 31, 2015 and 2014, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

4.3.3 Concentrations of Credit Risk

BDO Unibank Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

BDO Unibank Group

	2015			2014		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 412,108**	**P 169,064**	**P 132,092**	P 446,084	P 181,628	P 128,548
Wholesale and retail trade	**-**	**186,344**	**553**	-	161,425	606
Real estate activities	**-**	**184,770**	**19,874**	-	114,534	18,286
Manufacturing	**-**	**149,197**	**20,197**	-	137,676	20,709
Electricity, gas, steam and and air-conditioning supply	**-**	**126,441**	**-**	-	103,584	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**112,751**	**-**	-	113,049	-
Transportation and storage	**-**	**55,067**	**1,991**	-	50,267	1,784
Accommodation and food service activities	**-**	**38,478**	**-**	-	32,834	-
Construction	**-**	**25,942**	**-**	-	23,196	-
Information and communication	**-**	**22,930**	**-**	-	25,462	-
Arts, entertainment and recreation	**-**	**18,308**	**-**	-	17,613	-
Professional, scientific and technical services	**-**	**17,409**	**-**	-	15,128	-
Agriculture, forestry and fishing	**-**	**14,702**	**-**	-	9,124	-
Water supply, sewerage waste management and remediation activities	**-**	**13,450**	**-**	-	13,987	-
Human health and social work activities	**-**	**11,497**	**-**	-	9,316	-
Mining and quarrying	**-**	**11,149**	**-**	-	6,669	-
Education	**-**	**9,773**	**-**	-	1,827	-
Administrative and support services	**-**	**6,794**	**-**	-	4,877	-
Public administrative and defense; compulsory social security	**-**	**257**	**-**	-	322	-
Activities of extraterritorial and organizations and bodies	**-**	**28**	**-**	-	53	-
Other service activities	**-**	**105,001**	**44,158**	-	66,798	42,811
	P 412,108	**P 1,279,352**	**P 218,865**	P 446,084	P 1,089,369	P 212,744
Concentration by location:						
Philippines	**P 388,137**	**P 1,200,852**	**P 180,232**	P 402,549	P 1,024,278	P 172,074
Others	**23,971**	**78,500**	**38,633**	43,535	65,091	40,670
	P 412,108	**P 1,279,352**	**P 218,865**	P 446,084	P 1,089,369	P 212,744

** Cash and cash equivalents include SPURRA and FCNC.*
***Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*
****Trading and investment securities are reported as gross of allowance.*

Parent Bank

	2015			2014		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 385,226**	**P 166,885**	**P 111,475**	P 432,397	P 179,415	P 109,896
Wholesale and retail traded	**-**	**180,861**	**503**	-	158,622	513
Real estate activities	**-**	**178,859**	**18,285**	-	112,264	17,982
Manufacturing	**-**	**145,096**	**17,880**	-	134,201	18,523
Electricity, gas, steam and air-conditioning supply	**-**	**125,008**	**-**	-	101,667	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**110,557**	**-**	-	112,172	-
Transportation and storage	**-**	**51,290**	**1,876**	-	47,566	1,439
Accommodation and food service activities	**-**	**38,375**	**-**	-	32,827	-
Information and communication	**-**	**22,278**	**-**	-	24,897	
Construction	**-**	**21,718**	**-**	-	19,955	-
Professional, scientific and technical services	**-**	**17,191**	**-**	-	15,010	-
Arts, entertainment and recreation	**-**	**15,636**	**-**	-	15,075	-
Water supply, sewerage waste management and remediation activities	**-**	**12,876**	**-**	-	13,411	-
Agriculture, forestry and fishing	**-**	**11,318**	**-**	-	9,016	-
Human health and social work activities	**-**	**10,651**	**-**	-	8,901	-
Mining and quarrying	**-**	**9,438**	**-**	-	4,542	-
Administrative and support services	**-**	**6,028**	**-**	-	4,469	-
Education	**-**	**2,376**	**-**	-	1,794	-
Public administrative and defense; compulsory social security	**-**	**116**	**-**	-	303	-
Activities of extraterritorial and organizations bodies	**-**	**28**	**-**	-	53	-
Other service activities	**-**	**104,241**	**43,311**	-	70,420	41,977
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330
Concentration by location:						
Philippines	**P 364,859**	**P 1,150,764**	**P 157,355**	P 391.093	P 1,001,024	P 152,359
Others	**20,367**	**80,062**	**35,975**	41,304	65,556	37,971
	P 385,226	**P 1,230,826**	**P 193,330**	P 432,397	P 1,066,580	P 190,330

** Cash and cash equivalents include SPURRA and FCNC.*
***Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*
****Trading and investment securities are reported as gross of allowance.*

4.4 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management System (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs and KRIs. To capture and assess operational risks arising from information security concerns, a bank-wide asset inventory was prepared. The inventory identified critical applications, sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as, protection measures in place to mitigate these risks.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's four service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined below as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, and financial advisory services;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases; and,

(e) ***Others*** – includes asset management, insurance and securities brokerage, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2015, 2014 and 2013 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2015							
Statement of Income							
Total interest income							
External	P 69,204	P 83	P 1,215	P 1,566	P 59	P -	P 72,127
Intersegment	207	2	-	1	9	(219)	-
	69,411	85	1,215	1,567	68	(219)	72,127
Total interest expense							
External	14,410	1	289	466	-	-	15,166
Intersegment	17	70	-	99	35	(221)	-
	14,427	71	289	565	35	(221)	15,166
Net interest income	54,984	14	926	1,002	33	2	56,961
Other operating income							
Investment banking fees	-	1,110	-	-	-	-	1,110
Others	30,800	368	1,096	1,039	1,609	(4,083)	30,829
	30,800	1,478	1,096	1,039	1,609	(4,083)	31,939
Other operating expenses							
Depreciation and amortization	3,161	54	48	670	28	-	3,961
Impairment losses	2,887	2	25	83	3	-	3,000
Others	48,109	640	1,060	564	951	(141)	51,183
	54,157	696	1,133	1,317	982	(141)	58,144
Profit before tax	31,627	796	889	724	660	(3,940)	30,756
Tax expense	4,875	234	221	167	204	-	5,701
Net profit	**P 26,752**	**P 562**	**P 668**	**P 557**	**P 456**	**(P 3,940)**	**P 25,055**
Statement of Financial Position							
Total resources							
Segment assets	P 1,944,884	P 6,851	P 51,527	P 34,510	P 9,939	(P 30,150)	P 2,017,561
Intangible assets	4,517	102	13	51	28	2,903	7,614
Deferred tax assets	6,271	(216)	58	(14)	(20)	-	6,079
	P 1,955,672	**P 6,737**	**P 51,598**	**P 34,547**	**P 9,947**	**(P 27,247)**	**P 2,031,254**
Total liabilities	**P 1,761,203**	**P 5,082**	**P 46,024**	**P 29,331**	**P 2,418**	**(P 12,417)**	**P 1,831,641**
Other segment information							
Capital expenditures	**P 8,919**	**P 20**	**P 17**	**P 1,150**	**P 145**	**P -**	**P 10,251**
Investment in associates under equity method	**5,656**	**85**	**-**	**-**	**-**	**-**	**5,741**
Share in the profit of associates	**817**	**20**	**-**	**-**	**-**	**-**	**837**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2014							
Statement of Income							
Total interest income							
External	P 60,673	P 73	P 1,298	P 1,445	P 94	P -	P 63,583
Intersegment	198	4	4	-	8	(214)	-
	60,871	77	1,302	1,445	102	(214)	63,583
Total interest expense							
External	11,715	3	242	366	32	-	12,358
Intersegment	12	73	-	93	34	(212)	-
	11,727	76	242	459	66	(212)	12,358
Net interest income	49,144	1	1,060	986	36	(2)	51,225
Other operating income							
Investment banking fees	-	1,144	-	-	-	-	1,144
Others	27,026	269	627	827	2,074	(2,480)	28,343
	27,026	1,413	627	827	2,074	(2,480)	29,487
Other operating expenses							
Depreciation and amortization	2,640	48	46	498	30	-	3,262
Impairment losses	5,014	(1)	1	100	-	-	5,114
Others	42,197	689	1,031	507	979	(135)	45,268
	49,851	736	1,078	1,105	1,009	(135)	53,644
Profit before tax	26,319	678	609	708	1,101	(2,347)	27,068
Tax expense	3,522	198	168	206	146	-	4,240
Net profit	P 22,797	P 480	P 441	P 502	P 955	(P 2,347)	P 22,828
Statement of Financial Position							
Total resources							
Segment assets	P 1,782,613	P 13,949	P 38,779	P 29,220	P 10,308	(P 21,693)	P 1,853,176
Intangible assets	4,247	102	18	60	13	-	4,440
Deferred tax assets	6,213	(193)	73	(41)	(19)	-	6,033
	P 1,793,073	P 13,858	P 38,870	P 29,239	P 10,302	(P 21,693)	P 1,863,649
Total liabilities	P 1,624,546	P 10,694	P 33,024	P 24,255	P 2,243	(P 10,782)	P 1,683,980
Other segment information							
Capital expenditures	P 7,255	P 16	P 41	P 1,183	P 23	P -	P 8,518
Investment in associates under equity method	5,840	51	-	-	-	-	5,891
Share in the profit of associates	637	15	-	-	-	-	652

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2013							
Statement of Income							
Total interest income							
External	P 54,262	P 72	P 956	P 1,292	P 24	P -	P 56,606
Inter-segment	217	3	2	-	9	(231)	-
	54,479	75	958	1,292	33	(231)	56,606
Total interest expense							
External	13,001	16	158	265	-	-	13,440
Inter-segment	12	40	1	148	29	(230)	-
	13,013	56	159	413	29	(230)	13,440
Net interest income	41,466	19	799	879	4	(1)	43,166
Other operating income							
Investment banking fees	-	1,165	-	-	-	-	1,165
Others	27,079	266	1,452	615	1,975	(708)	30,679
	27,079	1,431	1,452	615	1,975	(708)	31,844
Other operating expenses							
Depreciation and amortization	2,356	15	42	327	20	-	2,760
Impairment losses	6,216	44	32	126	(43)	626	7,001
Others	38,015	542	853	461	756	(128)	40,499
	46,587	601	927	914	733	498	50,260
Profit before tax	21,958	849	1,324	580	1,246	(1,207)	24,750
Tax expense	1,428	223	154	160	139	-	2,104
Net profit	P 20,530	P 626	P 1,170	P 420	P 1,107	(P 1,207)	P 22,646
Statement of Financial Position							
Total resources							
Segment assets	P 1,609,652	P 5,933	P 39,762	P 25,376	P 10,552	(P 25,163)	P 1,666,112
Intangible assets	612	101	11	-	1	-	725
Deferred tax assets	6,113	(190)	67	(24)	(25)	-	5,941
	P 1,616,377	P 5,844	P 39,840	P 25,352	P 10,528	(P 25,163)	P 1,672,778
Total liabilities	P 1,461,077	P 3,108	P 33,601	P 20,580	P 2,317	(P 12,259)	P 1,508,424
Other segment information							
Capital expenditures	P 3,328	P 1,486	P 21	P 1,101	P 1,210	P -	P 7,146
Investment in associates under equity method	5,362	36	-	-	-	-	5,398
Share in the profit of associates	593	13	-	-	-	-	606

Currently, BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and United States. Geographical segment information is not presented as these foreign operations accounted for only 1.1%, 1.3% and 0.8% of BDO Unibank Group's total revenues in 2015, 2014 and 2013, respectively, and 1.2% and 1.1% of BDO Unibank Group's total resources as of December 31, 2015 and 2014, respectively (see Note 1).

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

BDO Unibank Group

	2015							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial assets								
Loans and receivables:								
Cash and other cash items	**P**	**42,729**	**P**	**-**	**P**	**42,729**	**P**	**42,729**
Due from BSP		**271,808**		**-**		**271,808**		**271,808**
Due from other banks		**24,837**		**-**		**24,837**		**24,837**
Loans and other receivables		**1,382,752**		**-**		**1,382,752**		**1,397,542**
Other resources		**9,987**		**-**		**9,987**		**10,387**
Financial assets at FVTPL		**-**		**13,567**		**13,567**		**13,567**
AFS securities*		**-**		**211,943**		**211,943**		**211,943**
	P	**1,732,113**	**P**	**225,510**	**P**	**1,957,623**	**P**	**1,972,813**
Financial liabilities								
At amortized cost:								
Deposit liabilities	**P**	**1,663,853**	**P**	**-**	**P**	**1,663,853**	**P**	**1,667,276**
Bills payable		**97,543**		**-**		**97,543**		**98,181**
Subordinated notes payable		**10,030**		**-**		**10,030**		**9,990**
Other liabilities		**51,946**		**-**		**51,946**		**51,946**
At fair value –								
Other liabilities		**-**		**4,167**		**4,167**		**4,167**
	P	**1,823,372**	**P**	**4,167**	**P**	**1,827,539**	**P**	**1,831,560**

	2014							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial assets								
Loans and receivables:								
Cash and other cash items	P	41,342	P	-	P	41,342	P	41,342
Due from BSP		269,542		-		269,542		269,542
Due from other banks		45,621		-		45,621		45,621
Loans and other receivables		1,212,930		-		1,212,930		1,229,918
Other resources		7,551		-		7,551		7,951
Financial assets at FVTPL		-		8,768		8,768		8,768
AFS securities*		-		212,407		212,407		212,407
	P	1,576,986	P	221,175	P	1,798,161	P	1,815,549

	2014							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial liabilities								
At amortized cost:								
Deposit liabilities	P	1,492,282	P	-	P	1,492,282	P	1,476,026
Bills payable		100,361		-		100,361		100,955
Subordinated notes payable		10,030		-		10,030		10,347
Other liabilities		75,905		-		75,905		75,905
At fair value –								
Other liabilities		-		2,580		2,580		2,580
	P	1,678,578	P	2,580	P	1,681,158	P	1,665,813

Parent Bank

	2015							
	Classes							
	At Amortized Cost		**At Fair Value**		**Carrying Amount**		**Fair Value**	
Financial assets								
Loans and receivables:								
Cash and other cash items	**P**	**41,767**	**P**	**-**	**P**	**41,767**	**P**	**41,767**
Due from BSP		**260,841**		**-**		**260,841**		**260,841**
Due from other banks		**20,944**		**-**		**20,944**		**20,944**
Loans and other receivables		**1,323,311**		**-**		**1,323,311**		**1,338,100**
Other resources		**10,556**		**-**		**10,556**		**10,956**
Financial assets at FVTPL		**-**		**5,416**		**5,416**		**5,416**
AFS securities*		**-**		**190,891**		**190,891**		**190,891**
	P	**1,657,419**	**P**	**196,307**	**P**	**1,853,726**	**P**	**1,868,915**
Financial liabilities								
At amortized cost:								
Deposit liabilities	**P**	**1,603,047**	**P**	**-**	**P**	**1,603,047**	**P**	**1,603,440**
Bills payable		**76,867**		**-**		**76,867**		**77,504**
Subordinated notes payable		**10,030**		**-**		**10,030**		**9,990**
Other liabilities		**44,542**		**-**		**44,542**		**44,542**
At fair value –								
Other liabilities		**-**		**1,193**		**1,193**		**1,193**
	P	**1,734,486**	**P**	**1,193**	**P**	**1,735,679**	**P**	**1,736,669**

Parent Bank

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets				
Loans and receivables:				
Cash and other cash items	P 41,237	P -	P 41,237	P 41,237
Due from BSP	258,416	-	258,416	258,416
Due from other banks	43,165	-	43,165	43,165
Loans and other receivables	1,182,184	-	1,182,184	1,198,795
Other resources	7,209	-	7,209	7,609
Financial assets at FVTPL	-	5,313	5,313	5,313
AFS securities*	-	189,927	189,927	189,927
	P 1,532,211	P 195,240	P 1,727,451	P 1,744,462
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,464,089	P -	P 1,464,089	P 1,445,056
Bills payable	85,069	-	85,069	85,718
Subordinated notes payable	10,030	-	10,030	10,347
Other liabilities	62,076	-	62,076	62,076
At fair value –				
Other liabilities	-	816	816	816
	P 1,621,264	P 816	P 1,622,080	P 1,604,013

** Unquoted AFS securities (amounting to P249 and P335 for BDO Unibank Group in 2015 and 2014, respectively, and P193 and P209 for the Parent Bank in 2015and 2014, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When BDO Unibank Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2015 and 2014 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P249 and P335 in 2015 and 2014, respectively, in BDO Unibank Group financial statements and P193 and P209 in 2015 and 2014, respectively, in the Parent Bank financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 5,461	P -	P 5,461
Government bonds		4,855	-	-	4,855
Other debt securities		3,054	-	-	3,054
Equity securities – quoted		197	-	-	197
		8,106	5,461	-	13,567
AFS securities – net:	9.2				
Government debt securities		137,161	-	-	137,161
Other debt securities		67,011	-	-	67,011
Equity securities – quoted		7,585	186	-	7,771
		211,757	186	-	211,943
		P 219,863	P 5,647	P -	P 225,510
Liabilities –					
Derivatives with negative fair values	18	P 36	P 4,131	P -	P 4,167

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 3,609	P -	P 3,609
Government bonds		4,199	-	-	4,199
Other debt securities		824	-	-	824
Equity securities – quoted		136	-	-	136
		5,159	3,609	-	8,768
AFS securities – net:	9.2				
Government debt securities		141,566	-	-	141,566
Other debt securities		61,156	-	-	61,156
Equity securities – quoted		9,684	1	-	9,685
		212,406	1	-	212,407
		P 217,565	P 3,610	P -	P 221,175
Liabilities – Derivatives with negative fair values	18	P 30	P 2,550	P -	P 2,580

Parent Bank

	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2015					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		**P -**	**P 1,687**	**P -**	**P 1,687**
Government bonds		**3,679**	**-**	**-**	**3,679**
Other debt securities		**50**	**-**	**-**	**50**
		3,729	**1,687**	**-**	**5,416**
AFS securities – net:	9.2				
Government debt securities		**127,324**	**-**	**-**	**127,324**
Other debt securities		**59,266**	**-**	**-**	**59,266**
Equity securities – quoted		**4,116**	**185**	**-**	**4,301**
		190,706	**185**	**-**	**190,891**
		P 194,435	**P 1,872**	**P -**	**P 196,307**
Liabilities – Derivatives with negative fair values	18	**P 36**	**P 1,157**	**P -**	**P 1,193**

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL:	9.1				
Derivative financial assets		P -	P 1,112	P -	P 1,112
Government bonds		3,983	-	-	3,983
Other debt securities		218	-	-	218
		4,201	1,112	-	5,313
AFS securities – net:	9.2				
Government debt securities		127,866	-	-	127,866
Other debt securities		55,881	-	-	55,881
Equity securities - quoted		6,179	1	-	6,180
		189,926	1	-	189,927
		P 194,127	P 1,113	P -	P 195,240
Liabilities –					
Derivatives with negative fair values	18	P 30	P 786	P -	P 816

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

(a) Equity securities

As of December 31, 2015 and 2014, instruments included in Level 1 consist of quoted equity securities classified as financial assets at FVTPL or AFS securities. These securities were valued based on their closing prices on the PSE.

Golf club shares classified as AFS securities are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

(b) Debt securities

The fair value of the debt securities of BDO Unibank Group and the Parent Bank, which are categorized within Level 1, is discussed below.

(i) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEX which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

The fair values of ROP warrants which are categorized within Level 1, is determined to be the current mid-price based on the last trading transaction as defined by third-party market makers. The fair value of other derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2 (c)].

6.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Resources:				
Cash and other cash items	**P 42,729**	**P -**	**P -**	**P 42,729**
Due from BSP	**271,808**	**-**	**-**	**271,808**
Due from other banks	**24,837**	**-**	**-**	**24,837**
Loans and other receivable	**-**	**-**	**1,397,542**	**1,397,542**
Other resources	**5,021**	**-**	**5,366**	**10,387**
	P 344,395	**P -**	**P 1,402,908**	**P 1,747,303**
Liabilities:				
Deposit liabilities	**P 1,551,284**	**P 115,992**	**P -**	**P 1,667,276**
Bills payable	**49,988**	**48,193**	**-**	**98,181**
Subordinated notes payable	**-**	**9,990**	**-**	**9,990**
Other liabilities	**-**	**-**	**51,946**	**51,946**
	P 1,601,272	**P 174,175**	**P 51,946**	**P 1,827,393**
December 31, 2014				
Resources:				
Cash and other cash items	P 41,342	P -	P -	P 41,342
Due from BSP	269,542	-	-	269,542
Due from other banks	45,621	-	-	45,621
Loans and other receivable	-	-	1,229,918	1,229,918
Other resources	3,695	-	4,256	7,951
	P 360,200	P -	P 1,234,174	P 1,594,374
Liabilities:				
Deposit liabilities	P 1,395,626	P -	P 80,400	P 1,476,026
Bills payable	27,606	73,349	-	100,955
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	75,905	75,905
	P 1,423,232	P 83,696	P 156,305	P 1,663,233

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Resources:				
Cash and other cash items	**P 41,767**	**P -**	**P -**	**P 41,767**
Due from BSP	**260,841**	**-**	**-**	**260,841**
Due from other banks	**20,944**	**-**	**-**	**20,944**
Loans and other receivables	**-**	**-**	**1,338,100**	**1,338,100**
Other resources	**3,249**	**-**	**7,707**	**10,956**
	P 326,801	**P -**	**P 1,345,807**	**P 1,672,608**
Liabilities:				
Deposit liabilities	**P 1,491,855**	**P 111,585**	**P -**	**P 1,603,440**
Bills payable	**37,871**	**39,633**	**-**	**77,504**
Subordinated notes payable	**-**	**9,990**	**-**	**9,990**
Other liabilities	**-**	**-**	**44,542**	**44,542**
	P 1,529,726	**P 161,208**	**P 44,542**	**P 1,735,476**
December 31, 2014				
Resources:				
Cash and other cash items	P 41,237	P -	P -	P 41,237
Due from BSP	258,416	-	-	258,416
Due from other banks	43,165	-	-	43,165
Loans and other receivables	-	-	1,198,795	1,198,795
Other resources	3,407	-	4,202	7,609
	P 346,225	P -	P 1,202,997	P 1,549,222
Liabilities:				
Deposit liabilities	P 1,366,117	P -	P 78,939	P 1,445,056
Bills payable	27,606	58,112	-	85,718
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	62,076	62,076
	P 1,393,723	P 68,459	P 141,015	P 1,603,197

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) AFS Securities

The fair value of AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) Loans and Other Receivables

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior Notes presented as part of Bills Payable account in the statements of financial position is computed based on the average of ask and bid prices as appearing on Bloomberg.

(e) Other Resources and Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2015 and 2014 are shown below.

BDO Unibank Group

	2015			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 14,398	P 14,398
Building and improvements	-	-	10,075	10,075
	P -	P -	P 24,473	P 24,473

BDO Unibank Group

	2014			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 14,612	P 14,612
Building and improvements		-	7,897	7,897
	P -	P -	P 22,509	P 22,509

Parent Bank

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 13,041	P 13,041
Building and improvements	-	-	8,201	8,201
	P -	**P -**	**P 21,242**	**P 21,242**

	2014			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 13,406	P 13,406
Building and improvements		-	6,100	6,100
	P -	P -	P 19,506	P 19,506

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2015 and 2014 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers, which were used by BDO Unibank Group and Parent Bank in determining the fair value of discounted cash flows of the Investment Properties.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(b) *Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2015 and 2014.

6.6 *Offsetting Financial Assets and Financial Liabilities*

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2015 and 2014 are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2015			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 4,745	P 569	P -	P 4,176
Financial assets at FVTPL:				
Currency swaps	2,526	717	-	1,809
Interest rate swaps	55	55	-	-
Loans and receivables –				
Receivables from customers	35,783	1,113	33,806	864
Total	P 43,109	P 2,454	P 33,806	P 6,849

	December 31, 2014			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 31,574	P 22,779	P -	P 8,795
Financial assets at FVTPL:				
Currency forwards	1,114	1,114	-	-
Currency swaps	4	4	-	-
Interest rate swaps	32	32	-	-
Loans and receivables –				
Receivables from customers	63,986	908	63,078	-
Total	P 96,710	P 24,837	P 63,078	P 8,795

	December 31, 2015			
	Financial assets	**Financial liabilities available for set-off**	**Collateral received**	**Net Amount**
Parent Bank				
AFS securities	**P 2,898**	**P 570**	**P -**	**P 2,328**
Financial assets at FVTPL:				
Currency swaps	**5**	**5**	**-**	**-**
Interest rate swaps	**39**	**39**	**-**	**-**
Loans and receivables –				
Receivables from customers	**33,671**	**7**	**33,664**	**-**
Total	**P 36,613**	**P 621**	**P 33,664**	**P 2,328**

	December 31, 2014			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
Parent Bank				
AFS securities	P 29,604	P 22,779	P -	P 6,825
Financial assets at FVTPL:				
Currency swaps	4	4	-	-
Interest rate swaps	26	23	-	3
Loans and receivables –				
Receivables from customers	63,079	74	62,988	17
Total	P 92,713	P 22,880	P 62,988	P 6,845

The currency forwards and interest rate swaps above relates to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set off and presented at net in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2015			
	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
BDO Unibank Group				
Deposit liabilities	**P 47,269**	**P 33,806**	**P -**	**P 13,463**
Bills payable	**1,682**	**-**	**1,682**	**-**
Derivatives with negative fair values:				
Currency swaps	**717**	**717**	**-**	**-**
Interest rate swaps	**72**	**55**	**-**	**17**
Total	**P 49,740**	**P 34,578**	**P 1,682**	**P 13,480**

	December 31, 2014			
	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
BDO Unibank Group				
Deposit liabilities	P 70,137	P 63,078	P -	P 7,059
Bills payable	23,977	-	23,977	-
Derivatives with negative fair values:				
Currency forwards	1,414	826	288	300
Currency swaps	28	4	-	24
Interest rate swaps	34	32	-	2
Total	P 95,590	P 63,940	P 24,265	P 7,385

	December 31, 2015			
	Financial liabilities	**Financial assets available for set-off**	**Collateral given**	**Net Amount**
Parent Bank				
Deposit liabilities	**P 47,106**	**P 33,664**	**P -**	**P 13,442**
Bills payable	**577**	**-**	**577**	**-**
Derivatives with negative fair values:				
Currency swaps	**20**	**5**	**-**	**15**
Interest rate swaps	**47**	**39**	**-**	**8**
Total	**P 47,750**	**P 33,708**	**P 577**	**P 13,465**

	December 31, 2014			
	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
Parent Bank				
Deposit liabilities	P 70,035	P 62,988	P -	P 7,047
Bills payable	22,853	-	22,853	-
Derivatives with negative fair values:				
Currency swaps	28	4	-	24
Interest rate swaps	23	23	-	-
Total	P 92,939	P 63,015	P 22,853	P 7,071

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Cash and other cash items	**P 42,729**	P 41,342	**P 41,767**	P 41,237
Due from BSP:				
Mandatory reserves	**259,028**	235,432	**251,933**	230,005
Other than mandatory reserves	**12,780**	34,110	**8,908**	28,411
	271,808	269,542	**260,841**	258,416
	P 314,537	P 310,884	**P 302,608**	P 299,653

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rates of 2.5% in 2015, 2.0% to 2.5% in 2014 and 1.9% to 3.5% in 2013. Total interest income earned amounted to P738, P2,026 and P1,555 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P592, P1,787 and P1,363 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 20).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Foreign banks	**P 23,789**	P 43,559	**P 20,338**	P 41,276
Local banks	**1,048**	2,062	**606**	1,889
	P 24,837	P 45,621	**P 20,944**	P 43,165

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
U.S. dollars	**P 17,492**	P 40,663	**P 14,871**	P 38,885
Other foreign currencies	**6,961**	4,537	**6,004**	4,207
Philippine pesos	**384**	421	**69**	73
	P 24,837	P 45,621	**P 20,944**	P 43,165

Annual interest rates on these deposits range from 0.01% to 1.50 % in 2015, 0.01% to 3.30% in 2014 and 0.01% to 2.50% in 2013 in BDO Unibank Group's financial statements and 0.01% to 0.80% in 2015, 0.01% to 0.70% in 2014 and 0.01% to 1.00% in 2013 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P57, P39 and P21 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P43, P35 and P18 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 20).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Financial assets at FVTPL	**P 13,567**	P 8,768	**P 5,416**	P 5,313
AFS securities – net	**212,192**	212,742	**191,084**	190,136
	P 225,759	P 221,510	**P 196,500**	P 195,449

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Derivative financial assets	**P 5,461**	P 3,609	**P 1,687**	P 1,112
Government bonds	**4,855**	4,199	**3,679**	3,983
Other debt securities	**3,054**	824	**50**	218
	13,370	8,632	**5,416**	5,313
Equity securities – quoted	**197**	136	**-**	-
	P 13,567	P 8,768	**P 5,416**	P 5,313

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P121, P37 and P440 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P167, P65 and (P17) in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements. These are included as part of Trading gain under Other Operating Income account in the statements of income (see Note 22).

Foreign currency-denominated securities amounted to P3,513 and P2,242 as of December 31, 2015 and 2014, respectively, in BDO Unibank Group's financial statements and P2,237 and P1,993 as of December 31, 2015 and 2014, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and liabilities are shown below.

BDO Unibank Group

	2015			2014		
	Notional Amount	**Fair Values**		Notional Amount	Fair Values	
		Assets	**Liabilities**		Assets	Liabilities
Currency forwards/futures	**P 141,033**	**P 705**	**P 310**	P 195,151	P 596	P 401
Cross currency swaps	**60,060**	**4,678**	**3,689**	62,196	2,918	2,040
Interest rate swaps	**33,594**	**78**	**132**	17,961	95	109
Republic of the Philippines (ROP) warrants	**15,021**	**-**	**36**	15,021	-	30
Others	**200**	**-**	**-**	-	-	-
	P 249,908	**P 5,461**	**P 4,167**	P 290,329	P 3,609	P 2,580

Parent Bank

	2015			2014		
	Notional Amount	**Fair Values 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:

		BDO Unibank Group		Parent Bank	
	Note	**2015**	2014	**2015**	2014
Government debt securities		**P 137,181**	P 141,578	**P 127,344**	P 127,866
Other debt securities:					
Quoted		**68,071**	62,291	**60,327**	56,908
Not quoted		**243**	243	**243**	243
Equity securities:					
Quoted		**9,894**	9,993	**6,395**	6,460
Not quoted		**739**	812	**567**	574
		216,128	214,917	**194,876**	192,051
Allowance for impairment	14	**(3,936)**	(2,175)	**(3,792)**	(1,915)
		P 212,192	P 212,742	**P 191,084**	P 190,136

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Foreign currencies	**P 151,029**	P 154,132	**P 144,109**	P 147,136
Philippine peso	**61,163**	58,610	**46,975**	43,000
	P 212,192	P 212,742	**P 191,084**	P 190,136

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.0% to 11.6% in 2015 and 2014 and 0.0% to 13.0% in 2013 for BDO Unibank Group's financial statements while 1.6% to 11.6% in 2015, 0.0% to 11.6% in 2014 and 0.0% to 11.8% in 2013 in the Parent Bank's financial statements.

As of December 31, 2015 and 2014, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,048 and P1,027, respectively, in the Parent Bank financial statements. These investments are fully provided with allowance for impairment as of December 31, 2015 and 2014.

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

The fair values of government debt and quoted equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

For unquoted AFS securities, the fair value is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows. Accordingly, unquoted AFS securities are carried at cost.

Changes in AFS securities are presented below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 212,742**	P 218,162	**P 190,136**	P 203,833
Disposals	**(459,817)**	(380,568)	**(440,956)**	(370,443)
Additions	**455,074**	377,961	**437,205**	360,013
Foreign currency revaluation	**8,411**	1,119	**8,074**	1,081
Unrealized fair value losses	**(2,457)**	(2,440)	**(1,498)**	(2,846)
Impairment loss – net	**(1,761)**	(112)	**(1,877)**	(122)
Reclassification from AFS securities to Loans and other receivables	**-**	(1,380)	**-**	(1,380)
Balance at end of year	**P 212,192**	P 212,742	**P 191,084**	P 190,136

Government securities of the Parent Bank with an aggregate principal amount of P2,899 and P29,604 as of December 31, 2015 and 2014 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 29). These government securities were included in the reclassification from HTM investments in 2013 (see Note 9.3). BDO Unibank Group owned government securities with an aggregate principal amount of P4,745 and P31,574 as of December 31, 2015 and 2014 were pledged as collaterals for bills payable (see Notes 16 and 29).

As mentioned in Note 25, certain government debt securities are deposited with the BSP.

9.3 HTM Investments

In 2013, the BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39.

During 2013, the BDO Unibank Group and the Parent Bank disposed of previously classified HTM investments amounting to P47,182 and P40,413, respectively. The related trading gains on disposal recognized by BDO Unibank Group and the Parent Bank amounted to P7,907 and P7,425, respectively, and are presented as part of Trading gains under Other Operating Income account in the 2013 statement of income (see Note 22). As of December 31, 2015 and 2014, the market value of the remaining reclassified investments amounted to P9,335 and P20,430, respectively, for both the BDO Unibank Group and Parent Bank's financial statements.

9.4 Reclassification of Investment Securities

BDO Unibank Group recognized the deterioration of the world's financial markets that occurred in the third quarter of 2008. The enormity and extent of the global credit crisis was crystallized by the substantial government programs instituted by major economies in response to the crisis, including temporary liquidity facilities, outright purchase of commercial papers and mortgaged-backed securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

In 2008, BDO Unibank Group chose to avail of the regulatory relief on specific financial assets granted by the BSP under the governing provisions of Circular No. 628, which permitted the reclassification of certain financial assets to help banks cope with the adverse impact of the global financial crisis.

Accordingly, BDO Unibank Group reclassified in 2008 financial assets from FVTPL to HTM amounting to P6,297 and from AFS to HTM amounting to P25,540 (BDO Unibank Group) and P22,474 (Parent Bank). In 2013, BDO Unibank Group disposed all of its remaining financial assets at FVTPL reclassified to HTM. Moreover, as discussed in Note 9.3, BDO Unibank Group decided to reclassify its entire HTM investments to AFS securities, which include the financial assets previously coming from AFS securities. As of December 31, 2014, such financial assets had a carrying value of P222 and fair value of P228. In 2015, the remaining investments have already matured.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	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.

		BDO Unibank Group		Parent Bank	
	Notes	**2015**	2014	**2015**	2014
Deferred tax assets – net	27.1	**P 6,079**	P 6,033	**P 6,068**	P 6,213
Equity investments	13.1	**5,741**	5,891	**23,718**	17,027
Deposits under escrow	13.2	**5,226**	3,957	**5,226**	3,957
Goodwill	13.3, 26.1	**4,399**	1,482	**1,391**	1,391
Foreign currency notes and coins on hand		**3,244**	3,406	**3,243**	3,406
Branch licenses	13.3, 26.5, 26.6	**3,020**	3,020	**3,020**	3,020
Margin deposits		**1,776**	289	**5**	1
Real properties for development and sale		**1,760**	2,224	**-**	-
Retirement benefit asset	23.2	**1,355**	1,211	**1,237**	1,184
Computer software – net		**1,067**	779	**934**	688
Non-current assets held for sale	13.5	**567**	501	**558**	473
Customer list – net	26.8	**502**	529	**502**	529
Prepaid documentary stamps		**482**	460	**454**	438
Interoffice float items – net		**123**	-	**121**	-
Dividend receivable		**118**	283	**2,481**	245
Returned checks and other cash items		**112**	223	**111**	223
Receivables from SPVs	13.4	**5**	2,820	**5**	2,820
Others	13.6	**10,718**	10,563	**9,835**	9,752
		46,294	43,671	**58,909**	51,367
Allowance for impairment	14	**(2,553)**	(5,921)	**(4,824)**	(8,520)
		P 43,741	P 37,750	**P 54,085**	P 42,847

13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 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.

	Notes	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 2014
Balance at beginning of year:					
AFS securities	9.2	**P 2,175**	P 2,063	**P 1,915**	P 1,793
Loans and other receivables	10	**28,172**	26,580	**27,614**	26,119
Bank premises	11	**432**	363	**432**	363
Investment properties	12	**2,423**	2,366	**2,318**	2,268
Other resources	13	**5,921**	6,695	**8,520**	9,213
		39,123	38,067	**40,799**	39,756
Impairment losses - net		**2,974**	5,114	**2,683**	5,014
Business combination		**752**	276	**-**	237
Adjustments		**(592)**	(34)	**(965)**	-
Write-offs		**(5,456)**	(4,222)	**(5,188)**	(4,222)
Reversals		**(25)**	(93)	**-**	-
Foreign currency revaluation		**189**	15	**186**	14
Balance at end of year:					
AFS securities	9.2	**3,936**	2,175	**3,792**	1,915
Loans and other receivables	10	**27,659**	28,172	**26,194**	27,614
Bank premises	11	**512**	432	**494**	432
Investment properties	12	**2,305**	2,423	**2,211**	2,318
Other resources	13	**2,553**	5,921	**4,824**	8,520
		P 36,965	P 39,123	**P 37,515**	P 40,799

Total impairment losses on financial assets amounted to P2,970, P5,052 and P5,968 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P2,679, P4,952 and P5,850 in 2015, 2014 and 2013, respectively, in the Parent Bank financial statements.

Total impairment losses on non-financial assets amounted to P4, P62 and P1,033 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P4, P62 and P366 in 2015, 2014 and 2013, respectively, in the Parent Bank financial statements.

In 2015, total allowance for impairment transferred upon consolidation of ONB amounted to P752. In 2014, total allowance for impairment transferred upon consolidation of BDO Savings and the asset acquisition of The Real Bank, Inc. amounted to P79 and P197, respectively, for BDO Unibank Group's financial statements and P40 and P197, respectively, in the Parent Bank's financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 2014
Demand	**P 104,066**	P 85,807	**P 67,808**	P 60,384
Savings	**1,033,652**	872,976	**1,025,873**	874,731
Time	**526,135**	533,499	**509,366**	528,974
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

This account is composed of the following (by counterparties):

	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 2014
Due to other banks:				
Demand	**P 1,575**	P 1,126	**P 1,567**	P 1,126
Savings	**4,441**	4,561	**4,438**	4,561
Time	**984**	5,626	**984**	5,626
	7,000	11,313	**6,989**	11,313
Due to customers:				
Demand	**102,491**	84,681	**66,241**	59,258
Savings	**1,029,211**	868,415	**1,021,435**	870,170
Time	**525,151**	527,873	**508,382**	523,348
	1,656,853	1,480,969	**1,596,058**	1,452,776
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 2014
Philippine pesos	**P 1,347,327**	P 1,200,473	**P 1,296,769**	P 1,179,436
Foreign currencies	**316,526**	291,809	**306,278**	284,653
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

The maturity profile of this account is presented below.

	BDO Unibank Group 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 2014
Less than one year	**P 1,534,073**	P 1,381,664	**P 1,478,876**	P 1,357,498
One to five years	**55,013**	47,868	**49,884**	43,841
Beyond five years	**74,767**	62,750	**74,287**	62,750
	P 1,663,853	P 1,492,282	**P 1,603,047**	P 1,464,089

BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0.0% to 5.3% in 2015, 2014 and 2013. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates.

BDO Unibank Group's time deposit liabilities include the Parent Bank's Long-term Negotiable Certificate of Deposits (LTNCD) as of December 31, 2015 and 2014 as follows:

		Outstanding Balance			
BSP Approval	Effective Rate	2015	2014	Issue Date	Maturity Date
July 10, 2014	3.75%	P 7,500	P -	April 6, 2015	October 6, 2020
October 25, 2013	3.125%	5,000	5,000	December 11, 2013	June 11, 2019
July 4, 2013	3.50%	5,000	5,000	September 12, 2013	September 12, 2020
January 31, 2013	3.80%	5,000	5,000	March 25, 2013	September 25, 2018
May 3, 2012	5.25%	5,000	5,000	October 15, 2012	October 15, 2019
		P 27,500	P 20,000		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

Effective May 30, 2014, Philippine Peso deposit liabilities and LTNCD of BDO Unibank Group are subject to a reserve requirement of 20% and 7%, respectively, in compliance with the BSP Circular No. 832 issued on May 27, 2014 (see Note 7).

16. BILLS PAYABLE

This account is composed of the following borrowings from:

		BDO Unibank Group		Parent Bank	
	Notes	2015	2014	2015	2014
Foreign banks	16.1	P 38,844	P 29,857	P 38,844	P 29,857
Senior notes	16.2	28,555	27,111	28,555	27,111
Local banks		8,153	3,550	-	-
Deposit substitutes		570	22,779	570	22,779
BSP		-	51	-	51
Others		21,421	17,013	8,898	5,271
		P 97,543	P 100,361	P 76,867	P 85,069

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2015	2014	2015	2014
Foreign currencies	P 76,865	P 85,000	P 76,843	P 85,000
Philippine pesos	20,678	15,361	24	69
	P 97,543	P 100,361	P 76,867	P 85,069

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
One to three months	**P 35,927**	P 50,926	**P 16,664**	P 37,239
More than three months to one year	**16,285**	1,224	**15,780**	239
More than one to three years	**44,123**	46,881	**43,215**	46,261
More than three years	**1,208**	1,330	**1,208**	1,330
	P 97,543	P 100,361	**P 76,867**	P 85,069

Bills payable bear annual interest rates of 0.1% to 12.0% in 2015 and 0.2% to 12.0% in 2014 and 2013. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9 and 10).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 21):

	BDO Unibank Group		
	2015	2014	2013
Senior notes	**P 1,166**	P 1,139	P 1,086
Foreign banks	**335**	250	142
Local banks	**165**	97	130
Deposit substitutes	**27**	29	70
BSP	**-**	1	26
Others	**490**	402	288
	P 2,183	P 1,918	P 1,742

	Parent Bank		
	2015	2014	2013
Senior notes	**P 1,166**	P 1,139	P 1,086
Foreign banks	**335**	250	140
Deposit substitutes	**27**	29	70
Local banks	**-**	8	15
BSP	**-**	1	26
Others	**178**	117	114
	P 1,706	P 1,544	P 1,451

16.1 Foreign Banks

In 2015, the Bank borrowed $500 through a term loan facility from a syndicate of foreign banks. This transaction was a combination of a re-financing of an existing loan of $350 and an increase in the transaction amount to $500 for general financing purposes. The loan facility has a 3-year tenor with a floating interest rate payable quarterly. As of December 31, 2015, the related syndicated term loan have outstanding balance of P23,335, net of related debt transaction costs.

16.2 Senior Notes

On February 16, 2012, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.448 or a total price of US$298. This Senior Notes, which will mature on February 16, 2017, bear a coupon rate of 4.5% per annum, with effective yield of 4.625% per annum, and is payable semi-annually every February 16 and August 16 since August 16, 2012. The net proceeds from the issuance of Senior Notes are intended for general funding and relending purposes. As of December 31, 2015 and 2014, the related Senior Notes had a carrying amount of P14,337 and P13,609, respectively.

On October 22, 2010, the Parent Bank issued unsecured Senior Notes with a face value of US$300 at a price of 99.632 or a total price of US$299. This Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and is payable semi-annually every April 22 and October 22 since 2011. The net proceeds from the issuance are intended to support business expansion plans, and general banking and relending activities. As of December 31, 2015 and 2014, the related Senior Notes had a carrying amount of P14,218 and P13,502, respectively.

Interest on Senior Notes amounted to P1,166 in 2015, P1,139 in 2014 and P1,086 in 2013 and is included as part of Interest expense on bills payable and other liabilities under Interest Expense account in the statements of income (see Note 21).

17. SUBORDINATED NOTES PAYABLE

Subordinated notes payable by the Parent Bank consist of the following as of December 31:

	Coupon Interest	Principal Amount	Outstanding Balance 2015	Outstanding Balance 2014	Issue Date	Maturity Date	Redemption Date
Tier 2 Series 1	7.00%	P 10,000	**P -**	P -	November 21, 2007	November 21, 2017	November 21, 2012
Tier 2 Series 2	8.50%	10,000	**-**	-	May 30, 2008	May 30, 2018	May 31, 2013
Tier 2 Series 3	7.50%	3,000	**-**	-	March 20, 2009	March 20, 2019	March 21, 2014
Tier 2 Series 4	6.50%	8,500	**-**	-	June 27, 2011	September 27, 2021	September 27, 2013
Tier 2 Series 5	6.38%	6,500	**-**	-	October 7, 2011	January 7, 2022	October 7, 2013
Tier 2 Series 2014-1	5.19%	10,000	**10,030**	10,030	December 10, 2014	March 10, 2025	-
		P 48,000	**P 10,030**	P 10,030			

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The redemption of Series 1, Series 2 and Series 3 Notes was approved by the BSP on September 27, 2012, April 4, 2013 and November 28, 2013, respectively. The early redemption of the Series 4 and Series 5 Notes was approved by the BSP on July 11, 2013.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P519, P80 and P1,305 in 2015, 2014 and 2013, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 21).

18. OTHER LIABILITIES

Other liabilities consist of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2015**	2014	**2015**	2014
Accounts payable		**P 13,208**	P 19,504	**P 11,776**	P 10,758
Manager's checks		**11,809**	11,620	**11,703**	11,570
Bills purchased – contra		**8,592**	26,670	**8,592**	26,670
Accrued expenses		**8,441**	7,473	**7,917**	7,012
Lease deposits		**5,087**	4,271	**98**	74
Derivatives with negative fair values	9.1	**4,167**	2,580	**1,193**	816
Outstanding acceptances payable		**1,762**	1,781	**1,762**	1,781
Withholding taxes payable		**1,386**	1,347	**1,293**	1,281
Capitalized interest and other charges		**385**	403	**344**	371
Due to principal		**375**	415	**-**	-
Due to BSP and Treasurer of the Philippines		**81**	69	**78**	65
Unearned income		**2**	1	**-**	-
Others		**4,920**	5,173	**4,614**	4,960
		P 60,215	P 81,307	**P 49,370**	P 65,358

The liability for unredeemed reward points amounting to P2,488 and P2,803 as of December 31, 2015 and 2014, respectively, presented as part of Accrued expenses 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:

	Notes	BDO Unibank Group		
		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

	Notes	Parent Bank		
		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 2015	BDO Unibank Group 2014	Parent Bank 2015	Parent Bank 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	BDO Unibank Group 2014	BDO Unibank Group 2013
Recognized in profit or loss:			
Current service costs	**P 1,211**	P 1,096	P 1,040
Interest income	**(72)**	(88)	(40)
	P 1,139	P 1,008	P 1,000
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**P 91**	(P 48)	P 95
- changes in demographic assumptions	**292**	360	-
- experience adjustments	**(101)**	(327)	(79)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(420)**	(25)	74
- changes in the effect of the asset ceiling	**(24)**	(19)	(16)
Share in actuarial gains of associates	**8**	12	-
	(P 154)	(P 47)	P 74

	Parent Bank		
	2015	2014	2013
Recognized in profit or loss:			
Current service costs	**P 1,105**	P 991	P 960
Interest income	**(69)**	(86)	(39)
	P 1,036	P 905	P 921
Recognized in other comprehensive income, net of tax (see Note 27):			
Actuarial gains (losses) arising from:			
- changes in financial assumptions	**P 57**	(P 55)	P 93
- changes in demographic assumptions	**275**	336	-
- experience adjustments	**(133)**	(302)	(104)
Remeasurement gain (loss) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	**(381)**	(28)	71
- changes in the effect of the asset ceiling	**(4)**	(14)	(14)
	(P 186)	(P 63)	P 46

Current service costs are presented as part of Compensation and benefits expense account under Other Operating Expenses account while interest income are netted against interest expense in the statements of income of BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Discount rates	**4.89% - 5.50%**	4.54% - 4.96%	**4.89%**	4.54%
Expected rate of salary increases	**8.00%**	8.00%	**8.00%**	8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, UITF, debt and equity instruments, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2015 and 2014:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2015			
BDO Unibank Group			
Discount rate	**1%**	**(P 619)**	**P 696**
Salary increase rate	**1%**	**595**	**(543)**
Parent Bank			
Discount rate	**1%**	**(P 515)**	**P 575**
Salary increase rate	**1%**	**488**	**(449)**

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2014			
BDO Unibank Group			
Discount rate	1%	(P 544)	P 646
Salary increase rate	1%	548	(467)
Parent Bank			
Discount rate	1%	(P 498)	P 597
Salary increase rate	1%	506	(429)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(iii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2015 and 2014 consists of debt instruments and cash and cash equivalents, although the BDO Unibank Group and Parent Bank also invest in UITFs and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the Company's strategies to manage its risks from previous periods.

(iv) Funding Arrangements and Expected Contributions

As of December 31, 2015, the plan of BDO Unibank Group and the Parent Bank is currently fully funded based on the latest actuarial valuation report.

The BDO Unibank Group and the Parent Bank expects to pay P1,530 and P1,355, respectively, as contributions to retirement benefit plans in 2016.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next 10 years is presented as follows:

	BDO Unibank Group	Parent Bank
Between one to five years	P 7,510	P 7,146
Between six to 10 years	13,563	12,794
	P 21,073	P 19,940

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.9 to 18.3 years for the BDO Unibank Group and 6.9 years for the Parent Bank.

24. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's significant transactions with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows:

Related Party Category	Notes	**2015** Amount of Transaction	**2015** Outstanding Balance	2014 Amount of Transaction	2014 Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**P 12,588**	**P 12,012**	P 28,534	P 12,046
Related Parties Under Common Ownership		**26,745**	**16,217**	76,984	34,389
Officers and Employees		**1,112**	**1,455**	1,022	1,415
Directors		**-**	**-**	2	2
Deposit Liabilities	24 (b)				
Stockholders		**339,476**	**61,034**	397,735	624
Related Parties Under Common Ownership		**498,553**	**15,513**	825,574	3,009
Officers and Employees		**3**	**3**	98	1
Other Transactions with Associates	24 (d)				
Loans and Advances		**5**	**1,225**	-	1,233
Dividend Income		**130**	**-**	428	148
Interest Income		**17**	**59**	92	4
Service Fees		**51**	**14**	42	12
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**760**	**78**	608	67
Key Management Personnel	24 (d)				
Compensation		**1,352**	**-**	1,202	-
Retirement Plan	24 (c)	**224**	**3,081**	273	4,178

The summary of the Parent Bank's significant transactions with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows:

Related Party Category	Notes	2015 Amount of Transaction	2015 Outstanding Balance	2014 Amount of Transaction	2014 Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**P 12,586**	**P 12,012**	P 28,534	P 12,046
Related Parties Under Common Ownership		**26,702**	**16,104**	76,924	34,310
Officers and Employees		**1,094**	**1,442**	1,021	1,413
Deposit Liabilities	24 (b)				
Stockholders		**339,476**	**61,034**	397,735	624
Related Parties Under Common Ownership		**498,553**	**15,513**	825,574	3,009
Officers and Employees		**3**	**3**	98	1
Other Transactions with Subsidiaries	24 (d)				
Loans and Advances		**45,119**	**6,980**	56,983	7,958
Derivative Assets		**99**	**10**	85	5
Derivative Liabilities		**574**	**6**	1,224	7
Deposit Liabilities		**198**	**3,002**	451	2,804
Dividend Income		**3,671**	**2,400**	1,934	-
Interest Income		**207**	**102**	198	68
Rent Income		**58**	**-**	57	-
Service Fees		**65**	**-**	66	-
Interest Expense		**11**	**-**	11	1
Rent Expense		**9**	**-**	8	-
Asset management fees				119	-
Other Transactions with Associates	24 (d)				
Dividend Income		**130**	**-**	428	148
Service Fees		**51**	**14**	42	12
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**699**	**78**	608	67
Key Management Personnel	24 (d)				
Compensation		**950**	**-**	861	-
Retirement Plan	24 (c)	**224**	**3,079**	272	4,175

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages:

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 2.0% to 3.5% per annum, 2.0% to 3.5% per annum and 2.0% to 3.0% per annum in 2015, 2014 and 2013, respectively, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank.

In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2015 and 2014, BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		**Parent Bank**	
	2015	2014	**2015**	2014
Total DOSRI loans	**P 29,684**	P 47,852	**P 29,558**	P 47,769
Unsecured DOSRI loans	**1,148**	3,203	**1,145**	3,143
Past due DOSRI loans	**-**	1	**-**	1
Non-performing DOSRI loans	**-**	1	**-**	1
% of DOSRI loans to total loan portfolio	**2.3%**	4.4%	**2.4%**	4.5%
% of unsecured DOSRI loans to total DOSRI loans	**3.9%**	6.7%	**3.9%**	6.6%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%

DOSRI loans of BDO Unibank Group and the Parent Bank bear annual interest rates of 0.0% to 12.0 % in 2015, 2.2% to 12.0% in 2014 and 2.3% to 12.0% in 2013 (except for credit card receivables which bear a monthly interest rate of 0.0% to 3.6%).

Total DOSRI loans of BDO Unibank Group and the Parent Bank include loans to officers under the Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within one month to 20 years.

Total loan releases and collections in 2015 amounted to P40,445 and P58,613 for BDO Unibank Group and P40,382 and P58,593 for the Parent Bank, respectively. Total loan releases and collections in 2014, on the other hand, amounted to P106,542 and P124,463 for BDO Unibank Group and P106,479 and P124,449 for the Parent Bank, respectively.

BDO Unibank Group and the Parent Bank assessed that these loans are not impaired in 2015 and 2014.

(b) *Deposits from Related Parties*

Total deposits made by the related parties to BDO Unibank Group and the Parent Bank both amounted to P838,032 and P1,223,407 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 5.3% both in 2015 and in 2014. The related interest expense from deposits amounted to P1,672 and P906 in 2015 and 2014, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank for the years ended December 31, 2015 and 2014 as follows:

	December 31, 2015			
	BDO Unibank Group		**Parent Bank**	
Transactions	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Loans to employees				
BDO Unibank, Inc.	P -	P 54	P -	P 54
BDO Leasing	-	1	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	3,011	-	3,011
Trading gain				
BDO Unibank, Inc.	219	-	219	-
Interest expense				
BDO Unibank, Inc.	5	-	5	-

	December 31, 2014			
	BDO Unibank Group		Parent Bank	
Transactions	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Loans to employees				
BDO Unibank, Inc.	P 130	P 71	P 130	P 71
BDO Leasing	-	2	-	-
BDO Capital	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	-	14	-	14
BDO Leasing	-	1	-	-
Deposit liabilities				
BDO Unibank, Inc.	-	4,090	-	4,090
Trading gain				
BDO Unibank, Inc.	134	-	134	-
Interest expense				
BDO Unibank, Inc.	8	-	8	-

Total deposits (including LTNCDs) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P3,011 and P4,090 as of December 31, 2015 and 2014, respectively. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P5 in 2015 and P8 in 2014.

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 23.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown below. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the consolidated financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. Total loans and advances granted and collections amounted to P45,119 and P46,097, respectively, in 2015 and P56,983 and P58,918, respectively, in 2014. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P163 and P92 as of December 31, 2015 and 2014, respectively (see Note 10).

The Parent Bank also grants unsecured and interest-bearing loans to subsidiaries with outstanding balance of P6,715 and P7,798 as of December 31, 2015 and 2014, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 10). These loans are payable in cash with a term between one month to two years. Interest income recognized on these loans amounted to P207 in 2015, P198 in 2014 and P219 in 2013 and is presented as part of Interest Income in the Parent Bank's statements of income. Interest rate on these loans ranges from 2.0% to 3.5% per annum in 2015, 2.0% to 3.5% per annum in 2014 and 2.0% to 3.0% per annum in 2013.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, credit card services, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/ asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank.

In 2015, 2014 and 2013, total service fees amounted to P65, P66 and P66, respectively, and are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 22). There are no outstanding balance arising from these transactions as of December 31, 2015 and 2014.

Certain subsidiaries lease office space from the Parent Bank. For the years ended December 31, 2015, 2014 and 2013, total rent collected from the subsidiaries amounted to P58, P57 and P53, respectively, and is included as part of Miscellaneous under Other Operating Income income in the Parent Bank's statements of income (see Note 22). The term of the lease is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

BDO Capital, BDO Securities and BDOI, have reimbursed the Parent Bank in cash on the actual costs and expenditures in relation to its services amounting to P82, P119 and P120 in 2015, 2014 and 2013, respectively. There are no outstanding receivable from subsidiaries as of December 31, 2015 and 2014.

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends declared by BDO Unibank Group's subsidiaries amounted to P3,671 , P1,934 and P364, respectively. These are presented as part of Dividends under Other Operating Income account in the Parent Bank statements of income (see Note 22). Out of the total dividends declared, the Parent Bank received P1,271, P1,934 and P364 in 2015, 2014 and 2013, respectively.

(3) Expenses of the Parent Bank

The Parent Bank leases space from BDOSHI for its branch operations. Total rent paid for the years ended December 31, 2015, 2014 and 2013 amounted to P9, P8 and P8, respectively, and is included as part of Occupancy account under Other Operating Expenses account in the Parent Bank's financial statements (see Note 22). The lease term is between ten to twenty years and is payable in cash. There are no outstanding payable to the subsidiary as of December 31, 2015 and 2014.

(4) Derivatives

In 2015 and 2014, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards, interest rate swap and cross currency swaps. As of December 31, 2015 and 2014, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative with negative fair values under Other Liabilities account in the statements of financial position.

(5) Deposit Liabilities

Total deposits made by the subsidiaries to the Parent Bank amounted to P3,002 and P2,804 in 2015 and 2014, respectively, and bearing interest rates of 0.0% to 1.5% in 2015 and 0.0% to 2.5% in 2014. The related interest expense from deposits amounted to P11 both in 2015 and 2014.

(ii) Other transactions with associates are shown below.

(1) Loans and Advances to Associates

As of December 31, 2015 and 2014, outstanding unsecured and interest-bearing loans and advances to associates amounted to P1,225 and P1,233, respectively, in BDO Unibank Group financial statements (nil for the Parent Bank). The related loans and advances are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable in cash between five to seven years. Total collections on loans and advances amounted to P13 and P16 in 2015 and 2014, respectively. BDO Unibank Group recognized P17, P92 and P91 interest income on these loans in 2015, 2014 and 2013, respectively. Annual interest rate on these loans ranges from 6.6% to 7.7% for the years 2015, 2014 and 2013. As of December 31, 2015 and 2014, there were no impairment losses recognized on these loans and advances.

(2) Income to the Parent Bank

Generali, an associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, Generali pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. For the years ended December 31, 2015, 2014 and 2013, total services fees amounted to P51, P42 and P35, respectively. Outstanding balances arising from this transaction amounted to P14 and P12 as of December 31, 2015 and 2014, respectively and is included as part of Accounts receivable under Loans and Other Receivables (see Note 10).

In 2015, 2014 and 2013, the Parent Bank's share in the cash dividends by BDO Unibank Group's associates amounted to P130, P428 and P216, respectively. These are presented as part of Dividend under Other Operating Income in the statements of income (see Note 22). Dividends receivable amounted to P148 as of December 31, 2014 (nil as of December 31, 2015). These are presented as part of Other Resources (see Note 13).

(iii) Transaction of the Parent Bank with related parties under common ownership:

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2015, 2014 and 2013, total rent paid to related parties amounted to P699, P608 and P529, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The terms of the lease are from two to five years and is payable in cash. Outstanding balances arising from this transaction amounted to P78 and P67 as of December 31, 2015 and 2014, respectively and is included as part of Accounts payable under Other Liabilities (see Note 18).

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows (see Note 23.1):

	BDO Unibank Group		
	2015	2014	2013
Salaries and wages	**P 863**	P 786	P 679
Bonuses	**406**	377	334
Social security costs and other benefits	**83**	39	38
	P 1,352	P 1,202	P 1,051

	Parent Bank		
	2015	2014	2013
Salaries and wages	**P 605**	P 562	P 467
Bonuses	**287**	271	234
Social security costs and other benefits	**58**	28	27
	P 950	P 861	P 728

25. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not resources of the BDO Unibank Group (see Note 31.3).

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Investments	**P 910,720**	P 808,105	**P 663,127**	P 590,995
Others	**6,627**	9,342	**5,428**	6,542
	P 917,347	P 817,447	**P 668,555**	P 597,537

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities (shown as part of AFS securities) with a total face value of P9,667 and P9,106 as of December 31, 2015 and 2014, respectively, in BDO Unibank Group and P6,865 and P6,230 as of December 31, 2015 and 2014, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2015 and 2014, the additional reserve for trust functions amounted to P215 and P192, respectively, for BDO Unibank Group and P171 and P156, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P2,909, P2,624 and P2,473 for the years ended December 31, 2015, 2014 and 2013, respectively, in BDO Unibank Group statements of income and P2,322, P2,180, and P2,116 for the years ended December 31, 2015, 2014 and 2013, respectively, in the Parent Bank statements of income (see Note 22).

26. MERGERS AND ACQUISITIONS

26.1 Acquisition of One Network Bank, Inc. (A Rural Bank)

On October 25, 2014, the Parent Bank's BOD authorized the purchase of all of the outstanding capital stock of ONB subject to the necessary regulatory approval. The BSP accordingly approved the transfer of up to 100% of the outstanding common stock of ONB to the Parent Bank on March 16, 2015.

Thereafter, on July 20, 2015, the Parent Bank acquired 99.59% of the total issued and outstanding capital stock of ONB in exchange for 64,499,890 common shares of the Parent Bank through a share swap transaction (i.e., BDO crossed in favor of the selling shareholders of ONB and issued an equal number of new shares from its unissued capital stock with a substantial BDO shareholder). Equity investment amounted to P6,685, inclusive of the payment of documentary stamp tax (DST) amounting to P9 for the transfer of ONB shares. The acquisition resulted in recognition of Additional Paid-in Capital amounting to P6,028, net of related transaction costs amounting to P3. Subsequently, on November 23, 2015, the Parent Bank acquired an additional 81,134 ONB shares, for cash of P2, thereby increasing its shareholdings in ONB to 99.63%.

The acquisition of ONB expands the regional presence of BDO Unibank Group in the countryside, particularly in the Southern Philippines. This also opens up new business opportunities for the BDO Unibank Group in terms of tapping underserved market segments.

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	3,294
Trading and investment securities		2,457
Loans and other receivables		20,532
Bank premises, furniture, fixtures and equipment		1,510
Other resources		403
Total resources *(carried forward)*	P	28,196

Total resources *(brought forward)*	P	28,196
Deposit liabilities		20,920
Other liabilities		3,478
Total liabilities		24,398
Net asset position		3,798
Non-controlling share in equity		14
Cost of investment		6,687
Goodwill (see Note 13)	P	2,903

26.2 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by its wholly owned subsidiary, BDO Capital, in CBN Grupo by way of a subscription of 3,273,000 CBN Grupo shares for a total subscription amount of €3. Upon completion of the proposed investment, BDO Capital will own approximately 96% of the outstanding capital stock of CBN Grupo. The transaction is still subject to the necessary regulatory approvals as of December 31, 2015.

26.3 Three Way Merger among BDO Capital, BDO Savings and BDO Elite

On July 22, 2015, the shareholders of BDO Capital, BDO Elite and BDO Savings approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group owns 98.82% of BDO Elite, 99.99% of BDO Savings and 100% of BDO Capital.

The merger will involve the issuance of shares by BDO Capital to the Parent Bank and other shareholders of the companies to be absorbed. The exchange ratio is determined at (a) 0.14102 BDO Capital share for every BDO Elite share held, and (b) 0.04313 BDO Capital share for every BDO Savings share held, based on the audited financial statements of the companies as of June 30, 2015.

The transaction is still subject to the necessary regulatory approvals.

26.4 Acquisition of Generali

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of Generali Pilipinas Holding Company, Inc. (GPHC), which owns Generali Pilipinas Life Assurance Company (GPLAC), a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by GPHC. Currently, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of GPHC. Upon closing of the transaction, BDO Unibank Group will acquire 60% of the issued and outstanding capital stock of GPHC from the Generali Group.

On the other hand, the Generali Group will acquire 100% of the issued and outstanding capital stock of GPIC from GPHC. As of December 31, 2015, the transaction has not been closed and is still pending regulatory approvals from the BSP and the Insurance Commission.

26.5 Acquisition of BDO Savings

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.99% of the outstanding capital stock of CSI for P878 subject to necessary regulatory approval. The BSP approved the transaction on February 20, 2014. The acquisition resulted in the recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively. Subsequent to the acquisition, the Parent Bank changed the name of CSI to BDO Savings. Subsequently, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.7). The breakdown of the acquisition-date fair value of the assets and liabilities of BDO Savings, including the cost of investments follows:

Cash and cash equivalents	P	5,756
Trading and investment securities		1,012
Loans and other receivables		11
Bank premises, furniture, fixtures and equipment		48
Other resources		16
Total resources		6,843
Deposit liabilities		5,748
Other liabilities		199
Total liabilities		5,947
Net asset position		896
Cost of investment*		878
Gain from acquisition	P	18

** The value of the 20 branch licenses as a consequence of this acquisition totaling P380 were separately identified and valued by the Parent Bank and previous shareholders, hence, did not form part of the cost of investment (see Note 13).*

26.6 Purchase of Assets and Assumption of Liabilities of The Real Bank (A Thrift Bank), Inc.

On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. [TRB] executed a Memorandum of Agreement to transfer the latter's assets and liabilities to the Parent Bank. The BSP approved the transaction on July 2, 2014. The Bank recognized the fair value of assets and liabilities of TRB as presented below.

Cash and other cash items	P	97
Due from BSP		797
Due from other banks		49
Trading and other investments		125
Loans and other receivables		978
Premises, furniture, fixtures and equipment		77
Investment properties		358
Other resources		10
Total resources		2,491
Deposit liabilities		6,922
Bills payable		11
Other liabilities		185
Total liabilities		7,118
Net liability position	P	4,627

As settlement on the net liability position assumed by the Parent Bank, the majority shareholder/s of TRB will shoulder the P2,000 deficiency, through a term loan covered by acceptable hard assets, while the remaining deficiency is recognized by the Parent Bank as part of Branch licenses as granted by the BSP (see Note 13). In 2015, the P2,000 deficiency was settled through issuance of term loan under contract-to-sell financing and is presented as part of Loans and discounts under Loans and Other Receivables account in the 2015 statement of financial position (see Note 10).

26.7 Acquisition of Assets and Assumption of Liabilities from BDO Savings

On April 3, 2014, the Parent Bank and BDO Savings executed a Deed of Assignment to transfer the latter's assets and liabilities to the Parent Bank (see Note 26.5). The BSP approved the transaction on August 1, 2014.

The Parent Bank recognized the assets and liabilities of BDO Savings as follows:

Cash and other cash items	P	4,778
Loans and other receivables		3
Premises, furniture, fixtures and equipment		35
Other resources		18
Total resources *(carried forward)*	P	4,834

Total resources *(brought forward)*	P	4,834
Deposit liabilities		4,765
Other liabilities		69
Total liabilities		4,834
Net liability position	P	-

26.8 Acquisition of Trust Business

On February 21, 2014, the Parent Bank entered into a definitive agreement for the acquisition of the trust business of Deutsche Bank AG's Manila branch (Deutsche) comprising of trust, other fiduciary and investment management activities amounting to P35,751 and presented as part of contingent accounts under Trust department accounts (see Note 31.3). The transaction resulted in the recognition of an intangible asset with indefinite useful life and is presented as Customer lists under Other Resources account in the statements of financial position (see Note 13).

27. TAXES

27.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 3,510**	P 3,401	P 480
Minimum corporate income tax (MCIT) at 2%	**665**	369	583
Final taxes at 20%, 15%, 10% and 7.5%	**1,305**	1,084	788
	5,480	4,854	1,851
Deferred tax expense (income) relating to origination and reversal of temporary differences	**221**	(74)	253
	5,701	4,780	2,104
Application of previously unrecognized MCIT	**-**	(540)	-
	P 5,701	P 4,240	P 2,104
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 100)**	(P 22)	P 32
Movements in fair value of AFS securities	**(67)**	4	(21)
Movements in revaluation increment	**(8)**	-	(41)
	(P 175)	(P 18)	(P 30)

	Parent Bank		
	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 3,510**	P 3,202	P 65
Final taxes at 20%, 15%, 10% and 7.5%	**1,086**	933	636
MCIT at 2%	**-**	-	474
	4,596	4,135	1,175
Deferred tax expense (income) relating to origination and reversal of temporary differences	**233**	(73)	243
	4,829	4,062	1,418
Application of previously unrecognized MCIT	**-**	(540)	-
Tax expense reported in the statements of income	**P 4,829**	P 3,522	P 1,418
Reported in other comprehensive income			
Movements in actuarial gains (losses)	**(P 80)**	(P 26)	P 19
Movements in revaluation increment	**(8)**	-	(38)
	(P 88)	(P 26)	(P 19)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,227**	P 8,120	P 7,425
Adjustment for income subjected to lower income tax rates	**(657)**	(430)	(266)
Tax effects of:			
Income exempt from tax	**(3,076)**	(3,446)	(5,902)
Non-deductible expenses	**891**	791	1,448
Deductible temporary differences not recognized	**(713)**	(266)	(1,435)
NOLCO not recognized	**(9)**	6	563
Utilization of previously unrecognized net operating loss carryover (NOLCO)	**-**	(501)	-
Application of previously unrecognized MCIT	**-**	(540)	-
Others	**38**	506	271
Tax expense reported in profit or loss	**P 5,701**	P 4,240	P 2,104

	Parent Bank		
	2015	2014	2013
Tax on pretax profit at 30%	**P 9,404**	P 7,896	P 6,575
Adjustment for income subjected to lower income tax rates	**(431)**	(359)	(244)
Tax effects of:			
Income exempt from tax	**(4,111)**	(3,340)	(5,628)
Deductible temporary differences not recognized	**(773)**	(283)	(1,435)
Non-deductible expenses	**740**	630	1,194
Application of previously unrecognized MCIT	**-**	(540)	-
Utilization of previously unrecognized NOLCO	**-**	(482)	-
NOLCO not recognized	**-**	-	482
Others	**-**	-	474
Tax expense reported in profit or loss	**P 4,829**	P 3,522	P 1,418

The components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Deferred tax assets:				
Allowance for impairment	**P 6,117**	P 5,924	**P 5,823**	P 5,823
Unamortized past service costs	**1,445**	1,608	**1,409**	1,556
Lease income differential	**106**	99	**106**	99
NOLCO	**17**	31	**-**	-
Others	**44**	2	**-**	-
	7,729	7,664	**7,338**	7,478
Deferred tax liabilities:				
Retirement asset	**776**	723	**784**	768
Revaluation increment	**432**	438	**431**	439
Lease income differential	**85**	121	**-**	-
Changes in fair values of AFS securities	**74**	76	**-**	-
Capitalized interest	**56**	58	**55**	58
Others	**227**	215	**-**	-
	1,650	1,631	**1,270**	1,265
Net deferred tax assets	**P 6,079**	P 6,033	**P 6,068**	P 6,213

Movements in net deferred tax assets for the year ended December 31 follow:

	Statements of Income		
	2015	2014	2013
BDO Unibank Group			
Unamortized past service costs	**P 163**	(P 310)	P 62
Retirement asset	**116**	500	119
Lease income differential	**(42)**	(38)	(4)
NOLCO	**14**	4	(28)
Capitalized interest	**(2)**	(3)	8
Allowance for impairment	**-**	(300)	73
Others	**(28)**	73	23
Deferred tax expense (income)	**P 221**	(P 74)	P 253

	Statements of Income		
	2015	2014	2013
Parent Bank			
Retirement asset	**P 96**	P 556	P 130
Unamortized past service costs	**147**	(307)	55
Lease income differential	**(7)**	(9)	(5)
Capitalized interest	**(3)**	(3)	8
Allowance for impairment	**-**	(310)	55
Deferred tax expense (income)	**P 233**	(P 73)	P 243

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Movements in actuarial losses	**(P 100)**	(P 22)	**(P 80)**	(P 26)
Movements in fair value of AFS securities	**(67)**	4	**-**	-
Movements in revaluation increment	**(8)**	-	**(8)**	-
Deferred tax income	**(P 175)**	(P 18)	**(P 88)**	(P 26)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods follows for BDO Unibank Group (nil for the Parent Bank):

Year	NOLCO	MCIT	Valid Until
2015	P 1	P 12	2018
2014	1087	12	2017
2013	161	20	2016
	P 1,249	P 44	

In 2015, NOLCO and MCIT amounting to P1 and P24, respectively, expired for BDO Unibank Group (nil for Parent Bank).

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2015 and 2014 are as follows:

	BDO Unibank Group			
	2015		2014	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 16,089**	**P 4,827**	P 18,538	P 5,561
NOLCO	**1,249**	**375**	930	279
MCIT	**44**	**44**	18	18
Others	**1,947**	**584**	812	244
	P 19,329	**P 5,830**	P 20,298	P 6,102

	Parent Bank							
	2015				2014			
	Tax Base		**Tax Effect**		Tax Base		Tax Effect	
Allowance for impairment	**P**	**18,140**	**P**	**5,442**	P	20,588	P	6,176
Others		**1,947**		**584**		699		210
	P	**20,087**	**P**	**6,026**	P	21,287	P	6,386

BDO Unibank Group continues claiming itemized deduction for income tax purposes.

27.2 Gross Receipts Tax

On January 29, 2004, Republic Act (RA) No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

27.3 Documentary Stamp Tax

DST (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 17, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized as follows:

(a) On every issue of debt instruments, there shall be collected a DST of one peso on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 75 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the affectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

27.4 Supplementary Information Required by the Bureau of Internal Revenue

The BIR issued Revenue Regulations (RR) 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

28. EARNINGS PER SHARE

Basic earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 25,016**	P 22,805	P 22,608
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**24,677**	22,466	22,268
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 6.84**	P 6.27	P 6.22

Diluted earnings per share attributable to equity holders of the BDO Unibank Group were computed as follows:

	BDO Unibank Group		
	2015	2014	2013
Net profit attributable to shareholders of the Parent Bank	**P 24,677***	P 22,466*	P 22,608
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of preferred shares	*****	*	75
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 6.84**	P 6.27	P 6.18

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in the secondary market and no additional issuance is expected to be made.*

Basic earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,519**	P 22,797	P 20,499
Dividends on preferred shares	**(339)**	(339)	(340)
Net profit available to common shares	**26,180**	22,458	20,159
Divided by the weighted average number of outstanding common shares (in millions)	**3,610**	3,581	3,581
Basic earnings per share	**P 7.25**	P 6.27	P 5.63

Diluted earnings per share in the Parent Bank's financial statements were computed as follows:

	Parent Bank		
	2015	2014	2013
Net profit	**P 26,180***	P 22,458*	P 20,499
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,610**	3,581	3,581
Potential common shares from assumed conversion of convertible preferred shares	*****	*	75
Potential common shares from assumed conversion of stock option plan	******	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,610**	3,581	3,656
Diluted earnings per share	**P 7.25**	P 6.27	P 5.61

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2015 and 2014.*

*** Potential common shares from assumed conversion of stock option plan are purchased in market and no additional issuance is expected to be made.*

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2015	2014	2013
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**13.4%**	13.4%	14.0%
Return on average resources:			
Net profit / Average total resources	**1.3%**	1.3%	1.6%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.3%
Return on common equity:			
Net profit / Average common equity	**13.6%**	13.6%	14.3%
Liquidity ratio:			
Total liquid resources / Total resources	**33.8%**	38.1%	43.0%
Debt to equity:			
Total liabilities / Total equity	**917.6%**	937.3%	917.8%
Resources to equity:			
Total resources / Total equity	**1,017.6%**	1,037.3%	1,017.8%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**302.8%**	319.0%	284.2%
Profit margin:			
Net profit / Revenues	**24.1%**	24.5%	25.6%

	2015	2014	2013
BDO Unibank Group			
Capital to risk resources ratio*:			
Combined credit, market and operational risks	**13.3%**	14.4%	15.5%

* *Computed using balances prepared under PFRS*

	2015	2014	2013
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**15.1%**	14.3%	13.5%
Return on average resources:			
Net profit / Average total resources	**1.4%**	1.4%	1.5%
Net interest margin:			
Net interest income / Average interest earning resources	**3.2%**	3.2%	3.3%
Return on common equity:			
Net profit / Average common equity	**15.3%**	14.5%	13.8%
Liquidity ratio:			
Total liquid resources / Total resources	**32.7%**	37.4%	41.7%
Debt to equity:			
Total liabilities / Total equity	**912.1%**	964.0%	950.6%
Resources to equity:			
Total resources / Total equity	**1,012.1%**	1,064.0%	1,050.6%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**320.2%**	324.4%	268.4%
Profit margin:			
Net profit / Revenues	**26.9%**	25.9%	25.2%

	2015	2014	2013
Parent Bank			
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**12.2%**	13.1%	13.3%

* *Computed using balances prepared under PFRS*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2015	2014	**2015**	2014
Aggregate amount of secured liabilities	**P 1,682**	P 23,977	**P 577**	P 22,853
Aggregate amount of resources pledged as security	**P 6,723**	P 32,482	**P 2,906**	P 29,695

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

30.1 Dividends

On January 30, 2016, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.5% per annum of the par value for a total dividend of P339. The dividends were paid on February 16, 2016.

30.2 Joint Venture Investment Agreement with Nomura

On June 24, 2015, the BOD of PCIB Securities authorized PCIB Securities to enter in a Joint Venture Investment Agreement (Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 common shares of PCIB Securities at P370.34 per share, resulting to new percentage of ownership of the Parent Bank to 51.0% and Nomura having 49.0% over PCIB Securities.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2015, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

31.1.1 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order (TRO) which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

On November 27, 2012, the Petitioning Banks filed a Manifestation With Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated November 27, 2012 ("Manifestation/Reiterative Motion"), praying that the Supreme Court issue a resolution directing the Respondents to release to the Petitioners within a reasonable period the disputed 20% FWT to Petitioners to enable them to comply with the Honorable Court's "condition that the 20% final withholding tax on interest income therefrom shall be withheld by the banks and placed in escrow pending resolution of the subject petition".

On February 7, 2013, the Petitioners received Respondents' Motion asking for a period of thirty (30) days from February 4, 2013, or until March 6, 2013, to file their Comment (as directed by the Supreme Court) on the Manifestation/Reiterative Motion. In its Resolution dated February 12, 2013, the Supreme Court granted Respondents' Motion. On April 17, 2013, the Petitioners received Respondents' Comment (On Petitioners' Manifestation with Urgent Reiterative Motion to Direct Respondents to Comply with the Temporary Restraining Order) dated April 11, 2013. On June 5, 2013, the Petitioners filed a Reply to said Comment. By Resolutions dated June 10, 2013 and July 9, 2013, respectively, the Supreme Court admitted the Petitioners-Intervenors RCBC and RCBC Capital's Reply and Petitioners' Reply.

On January 13, 2015, the Supreme Court En Banc promulgated its Decision nullifying BIR Ruling Nos. 370-2011 and DA 378-2011, and ordering the Bureau of Treasury to immediately release and pay to the bondholders the amount corresponding to the 20% final withholding tax that it withheld on October 18, 2011.

On March 16, 2015, Intervenors RCBC and RCBC Capital Corporation filed their Motion for Clarification and/or Partial Reconsideration. On April 13, 2015, the Respondents filed their Motion for Reconsideration and Clarification.

On April 21, 2015, the Supreme Court en banc issued a Resolution requiring the Petitioners to file a Comment on the Motions filed by the Intervenors and the Respondents.

On July 6, 2015, the Petitioners filed a Consolidated Comment on Respondents' Motion for Reconsideration and Clarification, and Intervenors' Motion for Clarification and/or Partial Reconsideration (Petitioners' Consolidated Comment).

On July 28, 2015, the Supreme Court en banc issued a Resolution noting the Petitioner's Consolidated Comment, noting the Intervenors' Comment on the Respondents' Motion for Reconsideration and Clarification (Intervenors' Comment), and requiring the Office of the Solicitor General (OSG), on behalf of the Respondents, to file a Reply to the Petitioners' Consolidated Comment and Intervenors' Comment (Respondents' Reply) within ten days from receipt of Notice of Resolution.

On October 29, 2015, Petitioners received the Respondents' Reply dated October 19, 2015 and filed an Urgent Reiterative Motion [To Direct Respondents to Comply with the Temporary Restraining Order] dated October 22, 2015 which is still pending before the Supreme Court En Banc. As of January 19, 2016, Petitioners are still awaiting the Supreme Court's Resolution on the Respondents' Motion for Reconsideration and Clarification dated March 13, 2015, and RCBC and RCAP's Motion for Clarification and/or Partial Reconsideration dated March 16, 2015. Likewise, petitioners are still awaiting the Supreme Court's Resolution on our Urgent Reiterative Motion.

BDO Unibank continues to believe that petitioning banks have a strong case, and the 20% FWT amounting to P690 under Accounts receivable account presented under Loans and Other Receivables in the statements of financial position is recoverable (see Note 10).

31.1.2 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, nineteen banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. BDO Unibank, Inc. and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR 4-2011 and that the scope of RR 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 29, 2015, the BIR filed a Consolidated Comment with Motion to Dismiss the Petition for Declaratory Relief, and a Supplemental Motion for Reconsideration on July 7, 2015.

On August 5, 2015, the Petitioners filed their Comment on the BIR's Supplemental Motion for Reconsideration. The Petitioners also filed their Consolidated Reply to the Consolidated Comments of Respondents BIR and Department of Finance. To date, RTC Makati has not yet resolved Respondent BIR's Supplemental Motion for Reconsideration, dated June 20, 2015, which seeks the reconsideration of RTC Makati's Confirmatory Order of the coverage of the issued Writ of Preliminary Injunction.

As of September 7, 2015, RTC Makati issued an Order allowing Development Bank of the Philippines (DBP) and United Overseas Bank of the Philippines (UOBP) to intervene in the case. As of January 19, 2015, RTC Makati has not yet resolved UOBP's application for the issuance of a Writ of Preliminary Injunction.

On October 19, 2015, Land Bank of the Philippines (LBP) filed a Motion for Leave to Admit LBP's Petition-in-Intervention. As of January 19, 2016, RTC Makati has not yet resolved LBP's Motion to Intervene.

On November 10, 2015, RTC Makati granted DBP's application for the issuance of a Writ of Preliminary Injunction.

31.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2015, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 30 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P2,569, P2,199 and P1,971 in 2015, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P2,415, P2,131 and P1,875 in 2015, 2014 and 2013, respectively, in the Parent Bank's financial statements (see Note 22).

As of December 31, 2015, the estimated minimum future annual rentals of BDO Unibank, Inc. and Parent Bank follow:

	BDO Unibank Group	Parent Bank
Within one year	P 2,315	P 2,176
More than one year but not more than five years	11,337	10,769
More than five years	4,259	4,153
	P 17,911	**P 17,098**

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2015 and 2014, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

		BDO Unibank Group		**Parent Bank**	
	Note	**2015**	2014	**2015**	2014
Trust department accounts	25	**P 917,347**	P 817,447	**P 668,555**	P 597,537
Committed credit lines		**132,385**	121,794	**132,192**	121,575
Forward exchange sold		**104,736**	140,322	**83,717**	120,045
Forward exchange bought		**94,826**	121,434	**70,788**	98,584
Unused commercial letters of credit		**41,888**	54,109	**41,876**	54,109
Outstanding guarantees issued		**18,916**	3,446	**18,903**	3,446
Interest rate swap receivable		**16,554**	8,756	**9,528**	5,900
Interest rate swap payable		**16,554**	8,756	**9,528**	5,900
ROP warrants		**15,021**	15,021	**15,021**	15,021
Spot exchange sold		**6,738**	7,111	**6,588**	7,105
Bills for collection		**5,213**	6,978	**5,213**	6,978
Spot exchange bought		**3,000**	2,522	**2,849**	2,516
Export letters of credit confirmed		**2,577**	240	**2,577**	240
Late deposits/payments received		**2,404**	3,318	**2,372**	3,318
Other contingent accounts		**2,194**	1,138	**2,138**	1,138

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The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
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, 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.

Certified Public Accountants
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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		Parent Bank	
		2014	2013	**2014**	2013
R E S O U R C E S					
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)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012
INTEREST INCOME	20	**P 63,583**	P 56,606	P 54,014	**P 60,871**	P 54,431	P 51,657
INTEREST EXPENSE	21	**12,358**	13,440	17,893	**11,728**	13,014	17,245
NET INTEREST INCOME		**51,225**	43,166	36,121	**49,143**	41,417	34,412
IMPAIRMENT LOSSES - Net	14	**5,114**	7,001	4,941	**5,014**	6,216	4,850
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**46,111**	36,165	31,180	**44,129**	35,201	29,562
OTHER OPERATING INCOME	22	**29,487**	31,844	24,427	**27,026**	27,080	21,703
OTHER OPERATING EXPENSES	22	**48,530**	43,259	39,494	**44,836**	40,364	37,104
PROFIT BEFORE TAX		**27,068**	24,750	16,113	**26,319**	21,917	14,161
TAX EXPENSE	27	**4,240**	2,104	1,571	**3,522**	1,418	1,117
NET PROFIT		**P 22,828**	P 22,646	P 14,542	**P 22,797**	P 20,499	P 13,044
Attributable To:							
Shareholders of the Parent Bank		**P 22,805**	P 22,608	P 14,483			
Non-controlling Interests		**23**	38	59			
		P 22,828	P 22,646	P 14,542			
Earnings Per Share:	28						
Basic		**P 6.27**	P 6.22	P 4.52	**P 6.27**	P 5.63	P 4.06
Diluted		**P 6.27**	P 6.18	P 4.52	**P 6.27**	P 5.61	P 4.06

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012
NET PROFIT		**P 22,828**	P 22,646	P 14,542	**P 22,797**	P 20,499	P 13,044
OTHER COMPREHENSIVE INCOME							
Items that will be reclassified subsequently to profit or loss:							
Unrealized gains (losses) on available-for-sale (AFS) securities, net of tax	9	**(2,440)**	(12,410)	2,813	**(2,846)**	(12,334)	2,774
Transfer of realized gains on AFS securities to statements of income, net of tax		**2,801**	7,378	471	**2,796**	7,388	468
Net gains (losses) on AFS securities, net of tax		**361**	(5,032)	3,284	**(50)**	(4,946)	3,242
Translation adjustment related to foreign operations		**76**	281	(62)	**(6)**	357	(32)
		437	(4,751)	3,222	**(56)**	(4,589)	3,210
Items that will not be reclassified to profit or loss:							
Actuarial gains (losses) on remeasurement of retirement benefit asset, net of tax	23	**(47)**	74	81	**(63)**	46	77
Reversal of revaluation increment		**-**	(89)	-	**-**	(89)	-
		(47)	(15)	81	**(63)**	(43)	77
Total Other Comprehensive Income (Loss), Net of Tax		**390**	(4,766)	3,303	**(119)**	(4,632)	3,287
TOTAL COMPREHENSIVE INCOME		**P 23,218**	P 17,880	P 17,845	**P 22,678**	P 15,867	P 16,331
Attributable To:							
Shareholders of the Parent Bank		**P 23,184**	P 17,845	P 17,783			
Non-controlling Interests		**34**	35	62			
		P 23,218	P 17,880	P 17,845			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	BDO Unibank Group 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 1,113	(P 349)	P 145,701
Transactions with owners											
Cash dividends	19	-	-	-	-	(7,860)	-	-	-	-	(7,860)
Total comprehensive income (loss)		-	-	-	-	20,499	(4,946)	46	(89)	357	15,867
Transfer to (from) Surplus Free											
Trust reserve	19, 25	-	-	-	161	(161)	-	-	-	-	-
BALANCE AT DECEMBER 31, 2013		P 35,808	P 5,150	P 63,889	P 1,575	P 47,035	P 2,461	(P 3,242)	P 1,024	P 8	P 153,708
BALANCE AT JANUARY 1, 2012		P 26,074	P 5,000	P 25,156	P 1,295	P 27,483	P 4,165	(P 3,365)	P 1,115	(P 317)	P 86,606
Transactions with owners											
Stock rights issuance	19	8,952	-	34,147	-	-	-	P -	-	-	43,099
Cash dividends	19	-	-	-	-	(330)	-	-	-	-	(330)
Stock dividends	19	782	150	4,586	-	(5,524)	-	-	-	-	(6)
Total transaction with owners		9,734	150	38,733	-	(5,854)	-	-	-	-	42,763
Total comprehensive income (loss)		-	-	-	-	13,044	3,242	77	-	(32)	16,331
Transfer to (from) Surplus Free											
Trust reserve	19, 25	-	-	-	119	(119)	-	-	-	-	-
Revaluation increment on land written-off		-	-	-	-	3	-	-	(2)	-	1
		-	-	-	119	(116)	-	-	(2)	-	1
BALANCE AT DECEMBER 31, 2012		P 35,808	P 5,150	P 63,889	P 1,414	P 34,557	P 7,407	(P 3,288)	P 1,113	(P 349)	P 145,701

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 27,068	P 24,750	P 16,113	P 26,319	P 21,917	P 14,161
Adjustments for:							
Interest income	20	(63,583)	(56,606)	(54,014)	(60,871)	(54,431)	(51,657)
Interest received		62,529	56,737	53,495	60,122	54,596	51,153
Interest paid		(12,496)	(13,777)	(17,625)	(11,855)	(13,533)	(16,953)
Interest expense	21	12,358	13,440	17,893	11,728	13,014	17,245
Impairment losses	14	5,114	7,001	4,941	5,014	6,216	4,850
Depreciation and amortization	11, 12, 13	3,262	2,760	3,059	2,640	2,355	2,798
Share in net profit of associates	13	(652)	(606)	(470)	-	-	-
Fair value loss (gain)	9	(37)	(440)	(178)	(65)	17	(269)
Income from acquisition of a subsidiary	26	(18)	(43)	-	-	-	-
Operating profit before changes in operating resources and liabilities		33,545	33,216	23,214	33,032	30,151	21,328
Decrease (increase) in financial assets at fair value through profit or loss		1,076	22	(4,134)	(1,327)	1,138	(2,385)
Increase in loans and other receivables		(216,173)	(160,507)	(95,250)	(200,655)	(158,432)	(97,006)
Decrease (increase) in investment properties		(1,377)	(885)	1,188	(1,389)	1,597	1,130
Increase in other resources		(12,164)	(5,293)	(5,963)	(9,078)	(5,549)	(5,852)
Increase in deposit liabilities		147,105	413,734	72,945	147,110	397,695	80,874
Increase in other liabilities		18,543	12,075	11,763	9,907	9,557	11,919
Cash generated from (used in) operations		(29,445)	292,362	3,763	(22,400)	276,157	10,008
Cash paid for income tax		(4,160)	(2,168)	(1,346)	(3,589)	(1,204)	(630)
Net Cash From (Used in) Operating Activities		(33,605)	290,194	2,417	(25,989)	274,953	9,378
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from disposals of available-for-sale securities		383,247	612,048	391,344	373,079	594,111	387,278
Acqusitions of available-for-sale securities	9	(377,961)	(606,540)	(428,794)	(360,013)	(589,025)	(424,254)
Acquisitions of premises, furniture, fixtures and equipment	11	(5,970)	(4,321)	(2,975)	(4,712)	(3,143)	(2,571)
Proceeds from disposals of premises, furniture, fixtures and equipment		194	73	32	87	62	22
Acquisitions of held-to-maturity investments	9	-	(3,586)	(24,411)	-	(3,586)	(24,410)
Maturities and disposals of held-to-maturity investments		-	2,899	21,094	-	2,705	20,565
Net Cash From (Used in) Investing Activities		(490)	573	(43,710)	8,441	1,124	(43,370)
CASH FLOWS FROM FINANCING ACTIVITIES							
Dividends paid	19	(7,903)	(7,904)	(368)	(7,859)	(7,860)	(330)
Proceeds from (redemption of) subordinated notes payable	17	7,023	(25,000)	(10,000)	7,023	(25,000)	(10,000)
Net proceeds from (payments of) bills payable		6,100	21,974	(237)	2,216	17,639	871
Net proceeds from issuance of stock rights		-	-	43,099	-	-	43,099
Proceeds from issuance of senior notes payable	16	-	-	12,790	-	-	12,790
Transaction costs paid from issuance of stock dividends		-	-	(6)	-	-	(6)
Net Cash From (Used in) Financing Activities		5,220	(10,930)	45,278	1,380	(15,221)	46,424
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Carried Forward)*		(P 28,875)	P 279,837	P 3,985	(P 16,168)	P 260,856	P 12,432

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	BDO Unibank Group 2012 (As Restated – see Note 2)	Parent Bank 2014	Parent Bank 2013	Parent Bank 2012 (As Restated – see Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		**(P 28,875)**	P 279,837	P 3,985	**(P 16,168)**	P 260,856	P 12,432
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**27,824**	21,539	33,129	**27,736**	21,512	33,102
Due from Bangko Sentral ng Pilipinas	7	**408,383**	156,591	124,894	**384,361**	151,303	115,992
Due from other banks	8	**26,939**	12,645	24,719	**24,655**	11,488	22,777
Securities purchased under reverse repurchase agreement	10	**8,407**	941	4,989	**8,407**	-	-
		471,553	191,716	187,731	**445,159**	184,303	171,871
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**41,342**	27,824	21,539	**41,237**	27,736	21,512
Due from Bangko Sentral ng Pilipinas	7	**269,542**	408,383	156,591	**258,416**	384,361	151,303
Due from other banks	8	**45,621**	26,939	12,645	**43,165**	24,655	11,488
Securities purchased under reverse repurchase agreement	10	**86,173**	8,407	941	**86,173**	8,407	-
		P 442,678	P 471,553	P 191,716	**P 428,991**	P 445,159	P 184,303

Supplemental Information on Non-cash Financing and Investing Activities

The following are the significant noncash transactions:

a. On August 8, 2014, the Parent Bank and The Real Bank (A Thrift Bank), Inc. executed a Memorandum of Agreement to transfer to the Parent Bank the assets and liabilities of the latter amounting to P2,491 and P7,118, respectively, resulting in the recognition of Branch licenses and Accounts receivable amounting to P2,640 and P2,000, respectively (see Note 26).

b. In 2013, the BDO Unibank Group and the Parent Bank reclassified its Held-to-maturity investments totalling to P95,860 and P88,840, respectively, to Available-for-sale securities in anticipation of its planned disposal in accordance with Philippine Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (see Note 9).

c. In 2013, BDO Capital and Investment Corporation (BDO Capital), a subsidiary of BDO Unibank, obtained control over CBN Grupo through its 60% ownership acquired in 2011. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established (see Note 26). As of the date of initial consolidation, total resources and total liabilities of CBN Grupo amounted to P438 and P339, respectively.

d. On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company primarily engaged in the leasing business, amounting to P43 (see Note 26). As of the date of the acquisition, total resources and liabilities of Averon Holdings Corporation amounted to P1,484 and P1,397, respectively. Gain from acquisition amounted to P43.

e. On July 24, 2012, the Parent Bank acquired Rural Bank of San Juan, Inc.'s assets amounting to P695 and assumed the liabilities amounting to P1,320 which resulted in the recognition of branch licenses of P481 and goodwill of P144 (see Note 13.5).

f. On March 22, 2012, the Parent Bank declared 3% stock dividends on its outstanding common and preferred shares, equivalent to 78,218,589 common shares at P68.70 per share and 15,000,000 preferred shares at par. The declaration resulted in the recognition of additional paid-in capital of P4,586, net of issue costs (see Note 19.6). The dividends were distributed on June 8, 2012.

Other Information
Securities purchased under reverse repurchased agreement are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Loans and Other Receivables in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTER

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, insurance, credit card services, stockbrokerage, trust and others.

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of the General Banking Law of 2000 Republic Act (RA) No. 8791.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2014, the Parent Bank had 876 branches (including one foreign branch), 1,414 on-site and 1,177 off-site automated teller machines and 61 cash accept machines. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. These foreign operations accounted for 1.3%, 0.8% and 0.9% of BDO Unibank Group's total revenues in 2014, 2013 and 2012, respectively, and 1.1% and 0.5% of BDO Unibank Group's total resources as of December 31, 2014 and 2013, respectively. BDO Unibank Group's subsidiaries and associates are shown in Note 13.1.

1.2 Approval of Financial Statements

The financial statements of BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2014 (including the comparative financial statements for December 31, 2013 and 2012) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 26, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The consolidated financial statements of BDO Unibank Group and the separate financial statements of the Parent Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy (BOA).

In 2013 and 2012, the BDO Unibank Group and the Parent Bank prepared its financial statements in compliance with financial reporting standards in the Philippines (FRSP) for banks which is in accordance with PFRS, except for the reclassification of the credit-linked notes (CLNs) that are linked to Republic of the Philippines (ROP) bonds without bifurcating the embedded derivatives from fair value through profit or loss (FVTPL) to unquoted debt securities classified as loans (UDSCL) that are outstanding as of the effective date of reclassification, which was permitted by the BSP for prudential reporting, and by the Philippine Securities and Exchange Commission (SEC) for financial reporting purposes. However, on May 8 and September 20, 2013, BDO Unibank Group unwound the remaining outstanding CLNs related to reclassified securities with certain financial institutions amounting to P823 and P892, respectively. Hence, except for the Surplus free as of January 1, 2013 amounting to P22 and certain profit or loss account totaling P3 in 2013, which were both immaterial, BDO Unibank Group and the Parent Bank's financial statements as of December 31, 2014 and 2013 do not differ both under PFRS and FRSP for banks.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. BDO Unibank Group presents a statement of comprehensive income separate from the statement of income.

The BDO Unibank Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated (see also Note 2.25).

Items included in the financial statements of BDO Unibank Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which BDO Unibank Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2014 that are Relevant to BDO Unibank Group

In 2014, BDO Unibank Group adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. BDO Unibank Group's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on BDO Unibank Group's financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less costs of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of BDO Unibank Group's certain non-financial assets where impairment losses have been recognized were determined based on value-in-use, which have been adequately disclosed in accordance with PAS 36 (see Notes 11, 12 and 13.3).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. BDO Unibank Group enters into transactions involving derivative instrument; however, since it does not apply hedge accounting, the amendment did not have any impact on BDO Unibank Group's financial statements.

(iv) PFRS 10, 12 and PAS 27 (Amendments), *Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements – Exemption from Consolidation for Investment Entities.* The amendments define the term “investment entity” and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity’s unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. This amendment had no significant impact on the BDO Unibank Group’s financial statements.

(v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the BDO Unibank Group’s financial statements.

(b) Effective Subsequent to 2014 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014, which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and, unless otherwise stated, none of these are expected to have significant impact on BDO Unibank Group’s financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan’s contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

(iv) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(v) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9. As of the end of the reporting period, the BDO Unibank Group has no plan to change the accounting policy for its investments in its subsidiaries and associates.

(vi) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vii) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(viii) PFRS 10 (Amendment), *Consolidated Financial Statements - Investment Entities: Applying the consolidation exception* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary.

(ix) PFRS 11 (Amendment), *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(x) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

BDO Unibank Group is currently assessing the impact of PFRS 9 on the financial statements of BDO Unibank Group since it may or may not significantly impact the financial statements and it is conducting a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(xi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect those to have material impact on the BDO Unibank Group's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets.* The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (*Amendment*), *Related Party Disclosures.* The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

(c) PFRS 2 (Amendment), *Share-based Payment.* The amendment clarifies the definitions of "vesting condition" and "market condition" and defines a "performance condition" and a "service condition."

(d) PFRS 3 (Amendment), *Business Combinations.* This amendment clarifies that an obligation to pay contingent consideration, which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, *Financial Instruments – Presentation.* It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

(e) PFRS 8 (Amendment), *Operating Segments.* This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments, which have been aggregated and the economic indicators, which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

(f) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

(c) PFRS 3 (Amendment), *Business Combination*s. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.

Annual Improvements to PFRS (2012-2014 Cycle)

(a) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds, which were used to determine the discount rate for post-employment benefit obligations, shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

(b) PAS 34 (Amendment), *Interim Financial Reporting - Disclosure of information "elsewhere in the interim financial report"*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

(c) PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

(d) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(e) PFRS 7 (Amendment), *Financial Instruments - Applicability of amendments to PFRS 7 to condensed interim financial statements*. This amendment clarifies that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

2.3 Basis of Consolidation

The Parent Bank obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in resources are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Bank, using consistent accounting principles.

The Parent Bank accounts for its investments in subsidiaries and transactions with non-controlling interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which BDO Unibank Group has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Bank controls another entity. The Parent Bank obtains and exercises control when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity, usually through voting rights. Subsidiaries are consolidated from the date the Parent Bank obtains control.

The Parent Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Except as otherwise indicated, the acquisition of subsidiaries are accounted for using the acquisition method (see Note 2.12). Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BDO Unibank Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, BDO Unibank Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss (see Note 2.12).

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are accounted for in the Parent Bank's financial statements at cost less impairment losses, if any.

(b) *Transactions with Non-controlling Interests*

BDO Unibank Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of BDO Unibank Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recognized in equity. Disposals of equity investments to non-controlling interests, which result in gains or losses for BDO Unibank Group are also recognized in equity.

When BDO Unibank Group ceases to have control, any interest retained in the subsidiary is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The initial carrying amount for the purposes of subsequently accounting for the interest retained as an associate, joint venture or financial asset is the fair value. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if BDO Unibank Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

In BDO Unibank Group's financial statements, the non-controlling interest component is shown in its statement of changes in equity, and in its statement of income and statement of comprehensive income for the share of profit or loss and movement of other comprehensive income, respectively, during the year.

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2014	2013	2012
Thrift Bank			
BDO Elite Savings Bank, Inc. (BDO Elite)	**99%**	99%	99%
Banco De Oro Savings Bank, Inc. (BDO Savings formerly Citibank Savings, Inc., or CSI)	**100%**	-	-
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	**100%**	100%	100%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	**100%**	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	**89%**	89%	87%
Averon Holdings Corporation	**100%**	100%	-
BDO Rental, Inc. (BDO Rental)	**89%**	89%	87%
Securities Companies			
BDO Securities Corporation (BDO Securities)	**100%**	100%	100%
PCIB Securities, Inc.	**100%**	100%	100%
Armstrong Securities, Inc. (ASI)	**80%**	80%	80%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	**100%**	100%	100%
BDORO Europe Ltd. (BDORO)	**100%**	100%	100%
Equimark-NFC Development Corporation (Equimark)	**60%**	60%	60%
Insurance Companies			
BDO Insurance Brokers, Inc. (BDOI)	**100%**	100%	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	**100%**	100%	100%
Remittance Companies			
BDO Remit (USA), Inc.	**100%**	100%	100%
Express Padala (Hongkong), Ltd.	**100%**	100%	100%
PCIB Europe S.p.A.	**100%**	100%	100%
Express Padala Frankfurt GmbH	**100%**	100%	100%
BDO Remit (Italia) S.p.A	**100%**	100%	100%
BDO Remit (Japan) Ltd.	**100%**	-	-
BDO Remit (Canada) Ltd.	**100%**	-	-
BDO Remit Limited	**100%**	100%	100%
BDO Remit (Macau) Ltd.	**100%**	100%	100%
CBN Grupo International Holdings B.V. (CBN Grupo)	**60%**	60%	-
Others			
MDB Land, Inc.	**100%**	100%	100%
PCI Realty Corporation	**100%**	100%	100%

Non-controlling interests in 2014 and 2013 represent the interests not held by BDO Unibank Group in BDO Savings (0.1%), BDO Leasing, BDO Rental, BDO Elite, Equimark, CBN Grupo and ASI.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to BDO Unibank Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of BDO Unibank Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets, which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

Financial assets, which are recognized when BDO Unibank Group becomes a party to contractual terms of the financial instrument, include cash and other financial instruments. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(a) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or which meet certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as "held for trading" unless they are designated and effective as hedging instrument. Financial assets at FVTPL include derivatives, equity securities and government and private debt securities.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term and for CLNs and derivatives embedded in CLNs linked to ROP bonds as permitted by the BSP for prudential reporting and by the SEC for financial reporting.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans receivables, sales contract receivables, and all receivables from customers and other banks. Loans and receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents consist of cash, due from BSP and amounts due from other banks. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank call loans receivable and Securities Purchased Under Reverse Repurchase Agreement (SPURRA) with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables (see Note 2.23).

(c) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consisted of government and private debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group. Upon tainting, BDO Unibank Group shall not classify any financial assets as HTM investments for the next two reporting period after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any (see Note 2.23).

(d) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. BDO Unibank Group's AFS securities include government and corporate bonds, equity securities and golf club shares.

Non-derivative financial assets classified as AFS securities may be reclassified to loans and receivable category if that financial asset would have met the definition of loans and receivable and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes, except for interest and dividend income, impairment loss and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income (see Note 2.23).

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gain under Other Operating Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the BDO Unibank Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the BDO Unibank Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

BDO Unibank Group is a party to various foreign currency forwards, cross-currency swaps and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value (except for the embedded derivatives in CLNs linked to ROP bonds which BDO Unibank Group reclassified to loans and other receivables together with the host CLN in the prior years). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Certain derivatives may be designated as either: *(i)* hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, *(ii)* hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument depends on the hedging relationship designated by BDO Unibank Group.

2.7 Premises, Furniture, Fixtures and Equipment

Premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the Equity section, net of applicable deferred tax.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 - 50 years
Leasehold rights and improvements	5 years
Furniture, fixtures and equipment	3 - 5 years

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.24).

The residual values and estimated useful lives of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 - 25 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Note 2.24).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income in the year of retirement or disposal (see Note 22).

2.9 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which is determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land.

Land acquired for home building, home development and other types of real estate development is also carried at the lower of aggregate cost and NRV. Costs include acquisition costs and, once real estate development commences, the cost of these properties, including development costs incurred, is classified as Real properties for development and sale and is presented as part of Other Resources in the statement of financial position.

Real properties for development and sale are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss is presented as part of Income from assets sold or exchanged under Other Operating Income in the year of retirement or disposal (see Note 22).

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. Starting 2014, for real properties acquired through foreclosure, BDO Unibank Group included in its criteria that there should be an existence of a buyer before a foreclosed real property can be classified as Non-current Asset Held for Sale [see Note 3.1(e)].

BDO Unibank Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond BDO Unibank Group's control and there is sufficient evidence that BDO Unibank Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in profit or loss (see Note 22).

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.24). Associates are all entities over which BDO Unibank Group has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings (Losses) of Associates account in the BDO Unibank Group's statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.24).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the BDO Unibank Group, as applicable. However, when the BDO Unibank Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BDO Unibank Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are carried at cost, less any impairment losses (see Note 2.24).

2.12 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.24). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interests method.

2.13 Prepayments and Other Resources

Prepayments and other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably.

2.14 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.24). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. The trading right is tested annually for any impairment in realizable value (see Note 2.24).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life.

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment in accordance with PAS 36 by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.24).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.15 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and subordinated notes payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivatives with negative fair values are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Lease deposits from operating and finance leases (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day one gain and is included as part of Miscellaneous under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and are approved by the BSP.

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.16 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.17 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. The residual value of the leased asset at the end of the lease term is generally applied against the guaranty deposit of the lessee.

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 19.6).

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.

Net unrealized gains (losses) of AFS securities arises from cumulative mark-to-market valuation of outstanding AFS securities.

Accumulated actuarial gains (losses) results from the remeasurements of post-employment defined benefit plan.

Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets.

Accumulated translation adjustment pertains to exchange differences arising on translation of the resources and liabilities of foreign subsidiaries that are taken up in other comprehensive income (see Note 2.25).

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statements of financial position and changes in equity.

Other reserves pertain to amount recognized from increase in percentage of ownership of any of the subsidiaries of BDO Unibank Group (see Note 19.7).

2.19 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between BDO Unibank Group and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.20 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all financial assets or liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

(b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

(i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

(ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(iii) Arranger fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.

(iv) Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(c) *Trust fees* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(d) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities classified as financial assets at FVTPL.

(e) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

(f) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

(g) *Rental income* – Rental income arising from leased properties accounted for as operating lease is recognized on a straight-line basis over the lease terms and is recorded in profit or loss as part of Miscellaneous – net under Other Operating Income (see Note 2.22).

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(i)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.21 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g. legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.22 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss on a straight-line basis over the lease term.

(b) *BDO Unibank Group as Lessee*

Leases, which do not transfer to BDO Unibank Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expense as incurred.

BDO Unibank Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.23 Impairment of Financial Assets

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified yet with the individual financial assets in the group.

(a) Assets carried at amortized cost

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income, which is reported as Miscellaneous – net account under Other Operating Income in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the carrying value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of Republic Act No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

(i) clean loans and advances past due for a period of more than six months;
(ii) past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;

(iii) past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
(iv) when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
(v) accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
(vi) accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly receivables related to financing.

(b) *Assets carried at fair value with changes recognized in other comprehensive income*

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) *Assets carried at cost*

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.24 Impairment of Non-financial Assets

BDO Unibank Group's real properties for development and sale, equity investments, goodwill, branch licenses, trading rights, customer lists (recorded as part of Other Resources), premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.25 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for the FCDUs and foreign branch and subsidiaries which are maintained in U.S. dollars, European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY) or Hong Kong dollars.

The operating results and financial position of foreign branch and subsidiaries which are measured using the U.S. dollars, Euro, GBP, Yen or Hong Kong dollars, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

i. Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

iii. All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.18). When a foreign operation is sold, the cumulative amount of exchange differences are recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro, GBP, JPY or Hong Kong dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.26 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Others under Interest Expense in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by BDO Unibank Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) *Bonus Plans*

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(e) *Executive Stock Option Plan*

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years (vesting period) starting from the date of the approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is included as part of Compensation and benefits expense under the Other Operating Expenses account in the statement of income.

(f) Unavailed Leaves

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO under (a) in the previous page.

2.27 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which BDO Unibank Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.28 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued and not purchased from the market or stock exchange). Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.29 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.30 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about BDO Unibank Group's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying BDO Unibank Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, BDO Unibank Group evaluates its intention and ability to hold such investments up to maturity. If BDO Unibank Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2013, BDO Unibank Group reclassified its HTM investments to AFS securities. Accordingly, the rest of the HTM portfolio was reclassified to AFS securities in accordance with PAS 39 (see Note 9.3).

(b) Evaluating Impairment of AFS Securities

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

Based on the recent evaluation of information and circumstances affecting the BDO Unibank Group and the Parent Bank's AFS securities, management has recognized impairment loss on certain AFS securities in 2014 and 2013 as disclosed in Note 9.2. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) Distinguishing Operating and Finance Leases

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(e) Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, for chattels as Non-current assets held for sale (presented under Other Resources) if expected to be recovered through sale rather than use, for real properties as Investment Properties if intended to be held for capital appreciation or lease, as Financial Assets if qualified as such in accordance with PAS 39 or as Other properties if held for sale but the depreciable properties (other than building) are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

Starting 2014, BDO Unibank Group provides additional criterion for classifying real properties to Non-Current Asset Held for Sale (NCAHS) such that the real properties should have a ready buyer before it can be booked as NCAHS. Accounts previously classified as NCAHS with no ready buyers were reclassified to Investment Properties in 2014.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.21 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) *Estimating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)*

BDO Unibank Group reviews its AFS securities, HTM investments and Loans and other receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

BDO Unibank Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if BDO Unibank Group had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(c) *Determining Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates. BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(d) *Estimating Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Properties*

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and other properties are analyzed in Notes 12 and 13, respectively. Based on management's assessment as of December 31, 2014 and 2013, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and other properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determining Principal Assumptions for Management's Estimation of Fair Value of Investment Properties*

Investment Properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition. BDO Unibank Group engages services of professional external or internal appraisers applying the relevant valuation methodologies as discussed in Note 6.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(f) Determining Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2014 and 2013 is disclosed in Note 27.1.

(g) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.24. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

(h) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 23.

(i) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities account in the statements of financial position as disclosed in Note 18.

4. RISK MANAGEMENT

By their nature, BDO Unibank Group's activities are principally related to the use of financial instruments including derivatives. BDO Unibank Group accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn above average interest margins by investing these funds in high-quality assets. BDO Unibank Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. BDO Unibank Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including credit, liquidity, market (foreign exchange, interest rate, price risks) and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital. BDO Unibank Group's Risk Management Committee (RMC) has overall responsibility for BDO Unibank Group's risk management systems and sets risk management policies across the full range of risks to which BDO Unibank Group is exposed. Specifically, BDO Unibank Group's RMC places limits on the level of exposure that can be taken in trading positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing BDO Unibank Group's statement of financial position, including BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the BDO Unibank Group's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

RMG has responsibility for the setting of risk policies across the full range of risks to which BDO Unibank Group is exposed.

In the performance of its function, RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.

- It disseminates the approved policies to the relevant businesses/functions including authorities delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. RMG then performs compliance review to ensure approved policies are adhered to.

- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.

- When adverse trends are observed in the account/portfolio, RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- RMG is responsible for the direct management of Non-Performing Loan (NPL) accounts under its supervision and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio, which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2014 and 2013 in accordance with account classification of the BSP, is presented subsequently. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2014				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 41,342	P -	P -	P -	P 41,342
Due from BSP and other banks	314,788	352	19	4	315,163
Loans and other receivables - net	453,499	134,949	149,859	474,623	1,212,930
Trading and investment securities	11,387	5,512	54,301	150,310	221,510
Other resources	6,771	2,114	-	63,819	72,704
Total Resources	827,787	142,927	204,179	688,756	1,863,649
Liabilities and Equity:					
Deposit liabilities	454,731	11,564	7,846	1,018,141	1,492,282
Bills and subordinated notes payable	47,948	2,372	55,066	5,005	110,391
Other liabilities	21,950	1,107	2,056	56,194	81,307
Total Liabilities	524,629	15,043	64,968	1,079,340	1,683,980
Equity	-	-	-	179,669	179,669
Total Liabilities and Equity	524,629	15,043	64,968	1,259,009	1,863,649
On-book gap	303,158	127,884	139,211	(570,253)	-
Cumulative on-book gap	303,158	431,042	570,253	-	-
Contingent assets	185,404	28,324	53,469	41,039	308,236
Contingent liabilities	216,686	29,243	60,510	39,824	346,263
Off-book gap	(31,282)	(919)	(7,041)	1,215	(38,027)
Net Periodic Gap	271,876	126,965	132,170	(569,038)	-
Cumulative Total Gap	**P 271,876**	**P 398,841**	**P 531,011**	**(P 38,027)**	**P -**

BDO Unibank Group

	2013				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 27,824	P -	P -	P -	P 27,824
Due from BSP and other banks	435,308	-	9	5	435,322
Loans and other receivables - net	299,388	83,162	156,585	383,418	922,553
Trading and investment securities	13,100	4,469	29,884	180,457	227,910
Other resources	1,554	2,356	1,776	53,483	59,169
Total Resources	777,174	89,987	188,254	617,363	1,672,778
Liabilities and Equity:					
Deposit liabilities	479,635	13,678	5,594	846,426	1,345,333
Bills and subordinated notes payable	63,901	1,139	7,613	24,597	97,250
Other liabilities	11,922	48,311	3,998	1,610	65,841
Total Liabilities	555,458	63,128	17,205	872,633	1,508,424
Equity	-	-	-	164,354	164,354
Total Liabilities and Equity	555,458	63,128	17,205	1,036,987	1,672,778
On-book gap	221,716	26,859	171,049	(419,624)	-
Cumulative on-book gap	221,716	248,575	419,624	-	-
Contingent assets	74,773	12,049	10,086	16,135	113,043
Contingent liabilities	64,012	13,215	9,641	15,320	102,188
Off-book gap	10,761	(1,166)	445	815	10,855
Net Periodic Gap	232,477	25,693	171,494	(418,809)	-
Cumulative Total Gap	P 232,477	P 258,170	P 429,664	P 10,855	P -

Parent Bank

	2014				
	One to three months	**More than three months to one year**	**More than one year to three years**	**More than three years**	**Total**
Resources:					
Cash and other cash items	P 41,237	P -	P -	P -	P 41,237
Due from BSP and other banks	301,577	-	-	4	301,581
Loans and other receivables - net	450,461	128,662	137,660	465,401	1,182,184
Trading and investment securities	9,402	4,570	46,109	135,368	195,449
Other resources	6,484	2,113	-	64,025	72,622
Total Resources	809,161	135,345	183,769	664,798	1,793,073
Liabilities and Equity:					
Deposit liabilities	435,115	11,280	7,222	1,010,472	1,464,089
Bills and subordinated notes payable	35,298	1,819	46,238	11,744	95,099
Other liabilities	21,122	-	-	44,236	65,358
Total Liabilities	491,535	13,099	53,460	1,066,452	1,624,546
Equity	-	-	-	168,527	168,527
Total Liabilities and Equity	491,535	13,099	53,460	1,234,979	1,793,073
On-book gap	317,626	122,246	130,309	(570,181)	-
Cumulative on-book gap	317,626	439,872	570,181	-	-
Contingent assets	174,670	20,486	12,294	1,212	208,662
Contingent liabilities	198,922	21,621	20,191	1,210	241,944
Off-book gap	(24,252)	(1,135)	(7,897)	2	(33,282)
Net Periodic Gap	293,374	121,111	122,412	(570,179)	-
Cumulative Total Gap	**P 293,374**	**P 414,485**	**P 536,897**	**(P 33,282)**	**P -**

	2013				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 27,736	P -	P -	P -	P 27,736
Due from BSP and other banks	409,012	-	-	4	409,016
Loans and other receivables - net	287,110	77,223	146,878	396,182	907,393
Trading and investment securities	9,769	4,182	28,386	165,410	207,747
Other resources	1,571	2,445	2,275	56,598	62,889
Total Resources *(balance carried forward)*	P 735,198	P 83,850	P 177,539	P 618,194	P 1,614,781

Parent Bank

	2013				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Total Resources (balance brought forward)	P 735,198	P 83,850	P 177,539	P 618,194	P 1,614,781
Liabilities and Equity:					
Deposit liabilities	459,912	12,975	3,750	840,495	1,317,132
Bills and subordinated notes payable	53,709	-	64	32,061	85,834
Other liabilities	11,524	44,397	2,115	71	58,107
Total Liabilities	525,145	57,372	5,929	872,627	1,461,073
Equity	-	-	-	153,708	153,708
Total Liabilities and Equity	525,145	57,372	5,929	1,026,335	1,614,781
On-book gap	210,053	26,478	171,610	(408,141)	-
Cumulative on-book gap	210,053	236,531	408,141	-	-
Contingent assets	73,437	8,089	2,447	2,271	86,244
Contingent liabilities	62,725	9,463	2,404	2,033	76,625
Off-book gap	10,712	(1,374)	43	238	9,619
Net Periodic Gap	220,765	25,104	171,653	(407,903)	-
Cumulative Total Gap	P 220,765	P 245,869	P 417,522	P 9,619	P -

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure during the day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

The breakdown of the financial assets and liabilities as to foreign and peso-denominated balances as of December 31, 2014 and 2013 follows:

BDO Unibank Group

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P 33**	**P 310,851**	**P 310,884**	P 31	P 436,176	P 436,207
Due from other banks	**45,200**	**421**	**45,621**	26,787	152	26,939
Trading and investment securities:						
At FVTPL	**2,242**	**6,526**	**8,768**	2,310	7,438	9,748
AFS securities	**154,132**	**58,610**	**212,742**	182,777	35,385	218,162
Loans and other receivables	**206,944**	**1,005,986**	**1,212,930**	134,583	787,970	922,553
Other resources	**3,407**	**587**	**3,994**	2,243	174	2,417
	P 411,958	**P 1,382,981**	**P 1,794,939**	P 348,731	P 1,267,295	P 1,616,026
Liabilities:						
Deposit liabilities	**P 291,809**	**P 1,200,473**	**P 1,492,282**	P 236,489	P 1,108,844	P 1,345,333
Bills payable	**85,000**	**15,361**	**100,361**	83,756	10,487	94,243
Subordinated notes payable	**-**	**10,030**	**10,030**	-	3,007	3,007
Other liabilities	**2,287**	**76,198**	**78,485**	2,303	61,125	63,428
	P 379,096	**P 1,302,062**	**P 1,681,158**	P 322,548	P 1,183,463	P 1,506,011

Parent Bank

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	**P -**	**P 299,653**	**P 299,653**	P -	P 412,097	P 412,097
Due from other banks	**43,092**	**73**	**43,165**	24,611	44	24,655
Trading and investment securities:						
At FVTPL	**1,993**	**3,320**	**5,313**	2,103	1,811	3,914
AFS securities	**147,136**	**43,000**	**190,136**	177,592	26,241	203,833
Loans and other receivables	**207,840**	**974,344**	**1,182,184**	134,458	772,935	907,393
Other resources	**3,407**	**245**	**3,652**	2,243	98	2,341
	P 403,468	**P 1,320,635**	**P 1,724,103**	P 341,007	P 1,213,226	P 1,554,233

Parent Bank

	2014			2013		
	Foreign Currencies	**Philippine Pesos**	**Total**	Foreign Currencies	Philippine Pesos	Total
Liabilities:						
Deposit liabilities	**P 284,653**	**P 1,179,436**	**P 1,464,089**	P 229,989	P 1,087,143	P 1,317,132
Bills payable	**85,000**	**69**	**85,069**	82,711	116	82,827
Subordinated notes payable	**-**	**10,030**	**10,030**	-	3,007	3,007
Other liabilities	**2,104**	**60,788**	**62,892**	2,023	53,967	55,990
	P 371,757	**P 1,250,323**	**P 1,622,080**	P 314,723	P 1,144,233	P 1,458,956

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2014 and 2013 based on the expected interest realization or recognition are presented below and in the succeeding pages.

BDO Unibank Group

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,342	P 41,342
Due from BSP/ other banks	35,045	342	19	-	279,757	315,163
Loans and other receivables	777,650	89,898	209,143	135,267	972	1,212,930
Trading and investment securities	6,880	5,512	116,052	87,931	5,135	221,510
Other resources	-	-	-	-	72,704	72,704
Total Resources *(balance carried forward)*	P 819,575	P 95,752	P 325,214	P 223,198	P 399,910	P 1,863,649

BDO Unibank Group

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Total Resources *(balance brought forward)*	P 819,575	P 95,752	P 325,214	P 223,198	P 399,910	P 1,863,649
Liabilities and Equity:						
Deposit liabilities	454,444	32,694	77,225	20,652	907,267	1,492,282
Bills and subordinated notes payable	49,049	2,804	48,477	10,061	-	110,391
Other liabilities	10,424	1,806	4,316	80	64,681	81,307
Total Liabilities	513,917	37,304	130,018	30,793	971,948	1,683,980
Equity	-	-	-	-	179,669	179,669
Total Liabilities and Equity	513,917	37,304	130,018	30,793	1,151,617	1,863,649
On-book gap	305,658	58,448	195,196	192,405	(751,707)	-
Cumulative on-book gap	305,658	364,106	559,302	751,707	-	-
Contingent assets	32,204	2,035	-	-	-	34,239
Contingent liabilities	32,198	2,012	-	-	-	34,210
Off-book gap	6	23	-	-	-	29
Net Periodic Gap	305,664	58,471	195,196	192,405	(751,707)	-
Cumulative Total Gap	**P 305,664**	**P 364,135**	**P 559,331**	**P 751,736**	**P 29**	**P -**

	2013					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 27,824	P 27,824
Due from BSP/ other banks	212,555	-	9	-	222,758	435,322
Loans and other receivables	529,978	77,278	173,948	141,349	-	922,553
Trading and investment securities	10,956	4,469	67,334	135,403	9,748	227,910
Other resources	-	-	-	-	59,169	59,169
Total Resources	753,489	81,747	241,291	276,752	319,499	1,672,778
Liabilities and Equity:						
Deposit liabilities	474,966	48,366	51,417	32,164	738,420	1,345,333
Bills and subordinated notes payable	62,851	1,950	4,249	28,200	-	97,250
Other liabilities	867	703	2,615	11	61,645	65,841
Total Liabilities	538,684	51,019	58,281	60,375	800,065	1,508,424
Equity	-	-	-	-	164,354	164,354
Total Liabilities and Equity *(balance carried forward)*	P 538,684	P 51,019	P 58,281	P 60,375	P 964,419	P 1,672,778

BDO Unibank Group

	2013					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Total Liabilities and Equity *(balance brought forward)*	P 538,684	P 51,019	P 58,281	P 60,375	P 964,419	P 1,672,778
On-book gap	214,805	30,728	183,010	216,377	(644,920)	-
Cumulative on-book gap	214,805	245,533	428,543	644,920	-	-
Contingent assets	14,338	2,190	7,126	243	-	23,897
Contingent liabilities	14,413	2,220	7,125	244	-	24,002
Off-book gap	(75)	(30)	1	(1)	-	(105)
Net Periodic Gap	214,730	30,698	183,011	216,376	(644,920)	-
Cumulative Total Gap	P 214,730	P 245,428	P 428,439	P 644,815	(P 105)	P -

Parent Bank

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 41,237	P 41,237
Due from BSP/ other banks	27,594	-	-	-	273,987	301,581
Loans and other receivables	775,241	83,717	192,091	131,135	-	1,182,184
Trading and investment securities	5,239	4,570	108,309	73,148	4,183	195,449
Other resources	-	-	-	-	72,622	72,622
Total Resources	808,074	88,287	300,400	204,283	392,029	1,793,073
Liabilities and Equity:						
Deposit liabilities	432,887	31,989	75,762	20,653	902,798	1,464,089
Bills and subordinated notes payable	35,356	1,819	47,864	10,060	-	95,099
Other liabilities	6,484	-	-	-	58,874	65,358
Total Liabilities	474,727	33,808	123,626	30,713	961,672	1,624,546
Equity	-	-	-	-	168,527	168,527
Total Liabilities and Equity	474,727	33,808	123,626	30,713	1,130,199	1,793,073
On-book gap	333,347	54,479	176,774	173,570	(738,170)	-
Cumulative on-book gap *(balance carried forward)*	P 333,347	P 387,826	P 564,600	P 738,170	P -	P -

Parent Bank

	2014					
	One to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Non-rate sensitive**	**Total**
Cumulative on-book gap *(balance brought forward)*	P 333,347	P 387,826	P 564,600	P 738,170	P -	P -
Contingent assets	30,636	2,035	-	-	-	32,671
Contingent liabilities	30,633	2,012	-	-	-	32,645
Off-book gap	3	23	-	-	-	26
Net Periodic Gap	333,350	54,502	176,774	173,570	(738,170)	-
Cumulative Total Gap	**P 333,350**	**P 387,852**	**P 564,626**	**P 738,196**	**P 26**	**P -**

	2013					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 27,736	P 27,736
Due from BSP/ other banks	191,800	-	-	-	217,216	409,016
Loans and other receivables	526,482	71,217	159,613	150,081	-	907,393
Trading and investment securities	7,732	4,183	62,592	129,326	3,914	207,747
Other resources	-	-	-	-	62,889	62,889
Total Resources	726,014	75,400	222,205	279,407	311,755	1,614,781
Liabilities and Equity:						
Deposit liabilities	453,551	47,663	49,576	32,164	734,178	1,317,132
Bills and subordinated notes payable	53,385	-	4,249	28,200	-	85,834
Other liabilities	-	-	-	-	58,107	58,107
Total Liabilities	506,936	47,663	53,825	60,364	792,285	1,461,073
Equity	-	-	-	-	153,708	153,708
Total Liabilities and Equity	506,936	47,663	53,825	60,364	945,993	1,614,781
On-book gap	219,078	27,737	168,380	219,043	(634,238)	-
Cumulative on-book gap	219,078	246,815	415,195	634,238	-	-
Contingent assets	13,323	2,190	7,126	243	-	22,882
Contingent liabilities	13,407	2,220	7,125	243	-	22,995
Off-book gap	(84)	(30)	1	-	-	(113)
Net Periodic Gap	218,994	27,707	168,381	219,043	(634,238)	-
Cumulative Total Gap	P 218,994	P 246,701	P 415,082	P 634,125	(P 113)	P -

BDO Unibank Group's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. BDO Unibank Group uses the VaR model to estimate the daily potential loss that BDO Unibank Group can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in BDO Unibank Group's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. BDO Unibank Group uses a 99% confidence level and a 260-day observation period in VaR calculation. BDO Unibank Group's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in BDO Unibank Group's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon BDO Unibank Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2014		2013	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 21)**	**(P 267)**	(P 6)	(P 69)
Interest rate risk – Peso	**(33)**	**(455)**	(99)	(808)
Interest rate risk – USD	**(10)**	**(329)**	(7)	(115)
	(P 64)	**(P 1,051)**	(P 112)	(P 992)

Parent Bank

	2014		2013	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 21)**	**(P 267)**	(P 6)	(P 65)
Interest rate risk – Peso	**(25)**	**(281)**	(86)	(660)
Interest rate risk – USD	**(10)**	**(283)**	(5)	(88)
	(P 56)	**(P 831)**	(P 97)	(P 813)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2014 and 2013 is shown below.

BDO Unibank Group

	2014			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,054)**	**P 3,054**	**(P 1,527)**	**P 1,527**
As a percentage of the BDO Unibank Group's net interest income for 2014	**(6.0%)**	**6.0%**	**(3.0%)**	**3.0%**
Earnings-at-risk	**P 1,419**			

	2013			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 2,321)	P 2,321	(P 1,161)	P 1,161
As a percentage of the BDO Unibank Group's net interest income for 2013	(5.4%)	5.4%	(2.7%)	2.7%
Earnings-at-risk	P 1,639			

Parent Bank

	2014			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 3,350)**	**P 3,350**	**(P 1,675)**	**P 1,675**
As a percentage of the Parent Bank's net interest income for 2014	**(6.8%)**	**6.8%**	**(3.4%)**	**3.4%**
Earnings-at-risk	**P 1,535**			

	2013			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 2,424)	P 2,424	(P 1,212)	P 1,212
As a percentage of the Parent Bank's net interest income for 2013	(5.9%)	5.9%	(2.9%)	2.9%
Earnings-at-risk	P 1,697			

4.2.3 Price Risk

BDO Unibank Group is exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group classified on the statement of financial position either as AFS securities, HFT securities or financial assets at FVTPL. BDO Unibank Group is not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as HFT, financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index, which was 2.70% in 2014 and 5.96% in 2013 for securities classified as HFT securities, financial assets at FVTPL and AFS securities, with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on net profit after tax increase (decrease)		**Impact on other comprehensive income increase (decrease)**	
	2014	2013	**2014**	2013
HFT securities and Financial assets at FVTPL	**P 12**	P 0.43	**P -**	P -
AFS securities	**-**	-	**110**	502
	P 12	P 0.43	**P 110**	P 502

Parent Bank

	Impact on net profit after tax increase (decrease)		**Impact on other comprehensive income increase (decrease)**	
	2014	2013	**2014**	2013
AFS securities	**P -**	P -	**P 154**	P 266

4.2.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. It manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

The RMG also undertakes portfolio management by reviewing BDO Unibank Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

4.2.4.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(i) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(ii) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(iii) Adversely Classified

a. Loans Especially Mentioned (LEM)

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to BDO Unibank Group.

A credit may also be classified as "Loans Especially Mentioned" if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

b. Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to BDO Unibank Group because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to BDO Unibank Group unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

d. Loss

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

The following table shows the exposure to credit risk as of December 31, 2014 and 2013 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2014		
	Loans and Other Receivables	**Due from Other Banks**	**Trading and Investment Securities**
Carrying Amount	**P 1,212,930**	**P 45,621**	**P 211,353**
Individually Impaired			
Grade C: LEM	P 11,873	P -	P -
Grade D: Substandard	1,625	-	-
Grade E: Doubtful	2,083	-	1,008
Grade F: Loss	5,296	-	262
Gross amount	20,877	-	1,270
Allowance for impairment	(7,164)	-	(1,270)
Carrying amount	13,713	-	-
Collectively Impaired			
Unclassified	275	-	17,941
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,439	-	17,941
Allowance for impairment	(4,961)	-	(121)
Carrying amount	7,478	-	17,820
Past Due But Not Impaired			
Unclassified	1,275	-	-
Neither Past Due Nor Impaired			
Unclassified	1,190,464	45,621	193,533
Total Carrying Amount	**P 1,212,930**	**P 45,621**	**P 211,353**

BDO Unibank Group

	2013		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 922,553	P 26,939	P 216,936
Individually Impaired			
Grade C: LEM	P 7,037	P -	P -
Grade D: Substandard	1,331	-	-
Grade E: Doubtful	1,817	-	1,000
Grade F: Loss	5,877	-	262
Gross amount	16,062	-	1,262
Allowance for impairment	(8,149)	-	(1,262)
Carrying amount	7,913	-	-
Collectively Impaired			
Unclassified	-	-	10,107
Grade C: LEM	4,528	-	-
Grade D: Substandard	2,104	-	-
Grade E: Doubtful	674	-	-
Grade F: Loss	3,709	-	-
Gross amount	11,015	-	10,107
Allowance for impairment	(4,930)	-	(120)
Carrying amount	6,085	-	9,987
Past Due But Not Impaired			
Unclassified	1,274	-	-
Neither Past Due Nor Impaired			
Unclassified	907,281	26,939	206,949
Total Carrying Amount	P 922,553	P 26,939	P 216,936

An aging of past due but not impaired accounts of BDO Unibank Group reckoned from the past due date per BSP definition follows:

	Loans and Other Receivables	
	2014	2013
Up to 30 days	**P 718**	P 746
31 to 60 days	**296**	368
61 to 90 days	**232**	156
91 to 180 days	**11**	1
More than 180 days	**18**	3
	P 1,275	P 1,274

An aging of neither past due nor impaired accounts of BDO Unibank Group reckoned from the last payment date follows:

	Loans and Other Receivables			
	2014		2013	
Up to 30 days	**P**	**1,167,276**	P	878,424
31 to 60 days		**2,100**		15,678
61 to 90 days		**21,088**		13,179
	P	**1,190,464**	P	907,281

Parent Bank

	2014		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	**P 1,182,184**	**P 43,165**	**P 189,060**
Individually Impaired			
Grade C: LEM	P 11,086	P -	P -
Grade D: Substandard	1,319	-	-
Grade E: Doubtful	1,899	-	1,008
Grade F: Loss	5,141	-	262
Gross amount	19,445	-	1,270
Allowance for impairment	(6,921)	-	(1,270)
Carrying amount	12,524	-	-
Collectively Impaired			
Grade C: LEM	5,194	-	-
Grade D: Substandard	3,026	-	-
Grade E: Doubtful	841	-	-
Grade F: Loss	3,103	-	-
Gross amount	12,164	-	-
Allowance for impairment	(4,646)	-	-
Carrying amount	7,518	-	-
Past Due But Not Impaired			
Unclassified	1,246	-	-
Neither Past Due Nor Impaired			
Unclassified	1,160,896	43,165	189,060
Total Carrying Amount	**P 1,182,184**	**P 43,165**	**P 189,060**

Parent Bank

	2013		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 907,393	P 24,655	P 200,397
Individually Impaired			
Grade C: LEM	P 5,840	P -	P -
Grade D: Substandard	1,047	-	-
Grade E: Doubtful	1,651	-	1,000
Grade F: Loss	5,717	-	262
Gross amount	14,255	-	1,262
Allowance for impairment	(7,695)	-	(1,262)
Carrying amount	6,560	-	-
Collectively Impaired			
Grade C: LEM	4,097	-	-
Grade D: Substandard	2,104	-	-
Grade E: Doubtful	674	-	-
Grade F: Loss	3,709	-	-
Gross amount	10,584	-	-
Allowance for impairment	(4,923)	-	-
Carrying amount	5,661	-	-
Past Due But Not Impaired			
Unclassified	1,274	-	-
Neither Past Due Nor Impaired			
Unclassified	893,898	24,655	200,397
Total Carrying Amount	P 907,393	P 24,655	P 200,397

An aging of past due but not impaired accounts of the Parent Bank reckoned from past due date per BSP definition as follows:

	Loans and Other Receivables	
	2014	2013
Up to 30 days	**P 718**	P 746
31 to 60 days	**293**	368
61 to 90 days	**219**	156
91 to 180 days	**1**	1
More than 180 days	**15**	3
	P 1,246	P 1,274

An aging of neither past due nor impaired accounts of Parent Bank reckoned from the last payment date as follows:

	Loans and Other Receivables	
	2014	2013
Up to 30 days	**P 1,159,060**	P 877,623
31 to 60 days	**1,830**	14,854
61 to 90 days	**6**	1,421
	P 1,160,896	P 893,898

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P54,109 and P121,794, respectively, for 2014 and P37,423 and P121,989, respectively, for 2013 in BDO Unibank Group financial statements and P54,109 and P121,575, respectively, for 2014 and P37,423 and P121,676, respectively, for 2013 in the Parent Bank financial statements (see Note 31.3).

4.2.4.2 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. BDO Unibank Group holds collateral against loans and other receivables in the form of property, debt securities, equity securities, hold-out deposits and others.

Estimate of the fair value of collateral and other security enhancements held against the following loans and other receivables risk groupings as of December 31 follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Individually impaired				
Property	**P 7,301**	P 5,591	**P 5,464**	P 5,183
Equity security	**4,232**	2,979	**3,845**	2,652
Hold-out deposits	**27**	100	**27**	100
Others	**1,224**	1,312	**1,224**	1,312
	12,784	9,982	**10,560**	9,247
Collectively impaired				
Property	**7,746**	5,590	**7,746**	5,590
Hold-out deposits	**2**	-	**2**	-
Others	**3,807**	2,301	**3,807**	2,301
	11,555	7,891	**11,555**	7,891
Balance carried forward	**P 24,339**	P 17,873	**P 22,115**	P 17,138

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance brought forward	**P 24,339**	P 17,873	**P 22,115**	P 17,138
Past due but not impaired				
Property	**2,231**	1,848	**2,210**	1,848
Hold-out deposits	**27**	16	**27**	16
Debt security	**6**	-	**6**	-
Others	**584**	518	**584**	518
	2,848	2,382	**2,827**	2,382
Neither past due nor impaired				
Property	**433,182**	340,998	**409,090**	340,998
Equity security	**152,214**	135,384	**151,934**	135,173
Hold-out deposits	**78,709**	92,450	**78,709**	92,450
Debt security	**4,532**	2,292	**4,101**	2,023
Others	**389,866**	354,412	**389,798**	354,330
	1,058,503	925,536	**1,033,632**	924,974
	P 1,085,690	P 945,791	**P 1,058,574**	P 944,494

As of December 31, 2014 and 2013, no collateral is held for due from other banks and trading and investment securities.

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

4.2.4.3 Concentrations of Credit Risk

BDO Unibank Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

BDO Unibank Group

	2014			2013		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 442,678**	**P 181,628**	**P 128,548**	P 471,553	P 138,476	P 121,868
Wholesale and retail trade	**-**	**161,425**	**606**	-	145,088	1,173
Manufacturing	**-**	**137,676**	**20,709**	-	115,116	22,382
Real estate activities	**-**	**114,534**	**18,286**	-	119,910	12,547
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**113,049**	**-**	-	108,598	-
Electricity, gas, steam and air-conditioning supply	**-**	**103,584**	**-**	-	69,086	-
Transportation and storage	**-**	**50,267**	**1,784**	-	34,278	6,630
Accommodation and food service activities	**-**	**32,834**	**-**	-	18,492	-
Information and communication	**-**	**25,462**	**-**	-	28,812	-
Construction	**-**	**23,196**	**-**	-	16,067	-
Arts, entertainment and recreation	**-**	**17,613**	**-**	-	3,437	-
Professional, scientific and technical services	**-**	**15,128**	**-**	-	18,171	-
Water supply, sewerage waste management and remediation activities	**-**	**13,987**	**-**	-	14,536	-
Agriculture, forestry and fishing	**-**	**9,124**	**-**	-	9,643	522
Human health and social work activities	**-**	**9,316**	**-**	-	6,156	121
Mining and quarrying	**-**	**6,669**	**-**	-	6,846	-
Administrative and support services	**-**	**4,877**	**-**	-	2,534	-
Education	**-**	**1,827**	**-**	-	1,338	-
Public administrative and defense; compulsory social security	**-**	**322**	**-**	-	37	-
Activities of extraterritorial organizations and bodies	**-**	**53**	**-**	-	-	-
Other service activities	**-**	**66,798**	**42,811**	-	54,864	53,075
	P 442,678	**P 1,089,369**	**P 212,744**	P 471,553	P 911,485	P 218,318
Concentration by location:						
Philippines	**P 440,288**	**P 1,024,278**	**P 172,074**	P 445,968	P 888,915	P 171,371
Others	**2,390**	**65,091**	**40,670**	25,585	22,570	46,947
	P 442,678	**P 1,089,369**	**P 212,744**	P 471,553	P 911,485	P 218,318

Parent Bank

	2014			2013		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities*****	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities***
Concentration by sector:						
Financial and insurance activities	**P 428,991**	**P 179,415**	**P 109,896**	P 445,159	P 137,411	P 113,344
Wholesale and retail trade	**-**	**158,622**	**513**	-	142,767	506
Manufacturing	**-**	**134,201**	**18,523**	-	111,463	22,206
Real estate activities	**-**	**112,264**	**17,982**	-	117,313	12,336
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**112,172**	**-**	-	108,218	-
Electricity, gas, steam and air-conditioning supply	**-**	**101,667**	**-**	-	68,312	-
Transportation and storage	**-**	**47,566**	**1,439**	-	31,187	6,551
Accommodation and food service activities	**-**	**32,827**	**-**	-	18,489	-
Information and communication	**-**	**24,897**	**-**	-	28,278	
construction	**-**	**19,955**	**-**	-	13,315	-
Arts, entertainment and recreation	**-**	**15,075**	**-**	-	3,356	-
Professional, scientific and technical services	**-**	**15,010**	**-**	-	18,113	-
Water supply, sewerage waste management and remediation activities	**-**	**13,411**	**-**	-	13,939	-
Agriculture, forestry and fishing	**-**	**9,016**	**-**	-	9,531	522
Human health and social work activities	**-**	**8,901**	**-**	-	5,652	121
Mining and quarrying	**-**	**4,542**	**-**	-	4,464	-
Administrative and support services	**-**	**4,469**	**-**	-	2,219	-
Education	**-**	**1,794**	**-**	-	1,311	-
Public administrative and defense; compulsory social security	**-**	**303**	**-**	-	28	-
Activities of extraterritorial organizations and bodies	**-**	**53**	**-**	-	-	-
Other service activities	**-**	**70,420**	**41,977**	-	61,351	46,073
	P 428,991	**P 1,066,580**	**P 190,330**	P 445,159	P 896,717	P 201,659
Concentration by location:						
Philippines	**P 428,831**	**P 1,001,024**	**P 152,359**	P 421,872	P 873,575	P 156,607
Others	**160**	**65,556**	**37,971**	23,287	23,142	45,052
	P 428,991	**P 1,066,580**	**P 190,330**	P 445,159	P 896,717	P 201,659

* *Cash and cash equivalents include SPURRA.*
** *Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.*
*** *Trading and investment securities are reported as gross of allowance.*

4.3 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the RMC is done quarterly.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management System (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs and KRIs. To capture and assess operational risks arising from information security concerns, a bank-wide asset inventory was prepared. The inventory identified critical applications, sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as, protection measures in place to mitigate these risks.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's four service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined below as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, and financial advisory services;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts; and,

(d) ***Leasing and financing*** – provides direct leases, sale and leaseback arrangements and real estate leases; and,

(e) ***Others*** – includes asset management, insurance brokerage, realty management, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

Segment information (by service lines) as of and for the years ended December 31, 2014, 2013 and 2012 follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2014							
Statement of Income							
Total interest income							
External	P 60,673	P 73	P 1,298	P 1,445	P 94	P -	P 63,583
Intersegment	198	4	4	-	8	(214)	-
	60,871	77	1,302	1,445	102	(214)	63,583
Total interest expense							
External	11,715	3	242	366	32	-	12,358
Intersegment	12	73	-	93	34	(212)	-
	11,727	76	242	459	66	(212)	12,358
Net interest income	49,144	1	1,060	986	36	(2)	51,225
Other operating income							
Investment banking fees	-	1,144	-	-	-	-	1,144
Others	27,026	269	627	827	2,074	(2,480)	28,343
	27,026	1,413	627	827	2,074	(2,480)	29,487
Other operating expenses							
Depreciation and amortization	2,640	48	46	498	30	-	3,262
Impairment losses	5,014	(1)	1	100	-	-	5,114
Others	42,197	689	1,031	507	979	(135)	45,268
	49,851	736	1,078	1,105	1,009	(135)	53,644
Profit before tax	26,319	678	609	708	1,101	(2,347)	27,068
Tax expense	3,522	198	168	206	146	-	4,240
Net profit	**P 22,797**	**P 480**	**P 441**	**P 502**	**P 955**	**(P 2,347)**	**P 22,828**
Statement of Financial Position							
Total resources							
Segment assets	P1,782,613	P 13,949	P 38,779	P 29,220	P 10,308	(P 21,693)	P 1,853,176
Intangible assets	4,247	102	18	60	13	-	4,440
Deferred tax assets	6,213	(193)	73	(41)	(19)	-	6,033
	P1,793,073	**P 13,858**	**P 38,870**	**P 29,239**	**P 10,302**	**(P 21,693)**	**P 1,863,649**
Total liabilities	**P1,624,546**	**P 10,694**	**P 33,024**	**P 24,255**	**P 2,243**	**(P 10,782)**	**P 1,683,980**
Other segment information							
Capital expenditures	**P 7,255**	**P 16**	**P 41**	**P 1,183**	**P 23**	**P -**	**P 8,518**
Investment in associates under equity method	**5,840**	**51**	**-**	**-**	**-**	**-**	**5,891**
Share in the profit of associates	**637**	**15**	**-**	**-**	**-**	**-**	**652**

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2013							
Statement of Income							
Total interest income							
External	P 54,262	P 72	P 956	P 1,292	P 24	P -	P 56,606
Inter-segment	217	3	2	-	9	(231)	-
	54,479	75	958	1,292	33	(231)	56,606
Total interest expense							
External	13,001	16	158	265	-	-	13,440
Inter-segment	12	40	1	148	29	(230)	-
	13,013	56	159	413	29	(230)	13,440
Net interest income	41,466	19	799	879	4	(1)	43,166
Other operating income							
Investment banking fees	-	1,165	-	-	-	-	1,165
Others	27,079	266	1,452	615	1,975	(708)	30,679
	27,079	1,431	1,452	615	1,975	(708)	31,844
Other operating expenses							
Depreciation and amortization	2,356	15	42	327	20	-	2,760
Impairment losses	6,216	44	32	126	(43)	626	7,001
Others	38,015	542	853	461	756	(128)	40,499
	46,587	601	927	914	733	498	50,260
Profit before tax	21,958	849	1,324	580	1,246	(1,207)	24,750
Tax expense	1,428	223	154	160	139	-	2,104
Net profit	P 20,530	P 626	P 1,170	P 420	P 1,107	(P 1,207)	P 22,646
Statement of Financial Position							
Total resources							
Segment assets	1,609,652	5,933	39,762	25,376	10,552	(25,163)	1,666,112
Intangible assets	612	101	11	-	1	-	725
Deferred tax assets	6,113	(190)	67	(24)	(25)	-	5,941
	P 1,616,377	P 5,844	P 39,840	P 25,352	P 10,528	(P 25,163)	P 1,672,778
Total liabilities	P 1,461,077	P 3,108	P 33,601	P 20,580	P 2,317	(P 12,259)	P 1,508,424
Other segment information							
Capital expenditures	P 3,328	P 1,486	P 21	P 1,101	P 1,210	P -	P 7,146
Investment in associates under equity method	5,362	36	-	-	-	-	5,398
Share in the profit of associates	593	13	-	-	-	-	606

	Commercial Banking	Investment Banking	Private Banking	Leasing and Finance	Others	Eliminations	Group
December 31, 2012							
Statement of Income							
Total interest income							
External	P 51,576	P 88	P 1,046	P 1,270	P 34	P -	P 54,014
Intersegment	142	6	2	-	14	(164)	-
	51,718	94	1,048	1,270	48	(164)	54,014
Total interest expense							
External	17,225	4	302	361	1	-	17,893
Intersegment	20	43	1	98	1	(163)	-
	17,245	47	303	459	2	(163)	17,893
Net interest income	34,473	47	745	811	46	(1)	36,121
Other operating income							
Investment banking fees	-	700	-	-	-	-	700
Others	21,703	195	545	485	1,775	(976)	23,727
	21,703	895	545	485	1,775	(976)	24,427
Other operating expenses							
Depreciation and amortization	2,800	4	39	195	21	-	3,059
Impairment losses	4,850	1	(27)	112	5	-	4,941
Others	34,313	308	710	467	761	(124)	36,435
	41,963	313	722	774	787	(124)	44,435
Profit before tax	14,213	629	568	522	1,034	(853)	16,113
Tax expense	1,128	152	83	111	97	-	1,571
Net profit	P 13,085	P 477	P 485	P 411	P 937	(P 853)	P 14,542
Other segment information							
Capital expenditures	P 2,890	P 4	P 47	P 369	P 19	P -	P 3,329
Investment in associates under equity method	4,985	22	-	-	-	-	5,007
Share in the profit of associates	448	22	-	-	-	-	470

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

BDO Unibank Group

	2014			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and Receivables:				
Cash and other cash items	P 41,342	P -	P 41,342	P 41,342
Due from BSP	269,542	-	269,542	269,542
Due from other banks	45,621	-	45,621	45,621
Loans and other receivables	1,212,930	-	1,212,930	1,229,918
Other resources	3,994	-	3,994	3,994
Financial assets at FVTPL	-	8,768	8,768	8,768
AFS securities*	-	212,407	212,407	212,407
	P 1,573,429	P 221,175	P 1,794,604	P 1,811,592
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,492,282	P -	P 1,492,282	P 1,476,026
Bills payable	100,361	-	100,361	100,955
Subordinated notes payable	10,030	-	10,030	10,347
Other liabilities	75,853	-	75,853	75,853
At fair value:				
Other liabilities	-	2,632	2,632	2,632
	P 1,678,526	P 2,632	P 1,681,158	P 1,665,813

	2013			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and Receivables:				
Cash and other cash items	P 27,824	P -	P 27,824	P 27,824
Due from BSP	408,383	-	408,383	408,383
Due from other banks	26,939	-	26,939	26,939
Loans and other receivables	922,553	-	922,553	940,764
Other resources	2,417	-	2,417	2,417
Financial assets at FVTPL	-	9,748	9,748	9,748
AFS securities*	-	217,668	217,668	217,668
	P 1,388,116	P 227,416	P 1,615,532	P 1,633,743

BDO Unibank Group

	2013			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 1,345,333	P -	P 1,345,333	P 1,346,848
Bills payable	94,243	-	94,243	95,093
Subordinated notes payable	3,007	-	3,007	3,046
Other liabilities	59,983	-	59,983	59,983
At fair value:				
Other liabilities	-	3,445	3,445	3,445
	P 1,502,566	P 3,445	P 1,506,011	P 1,508,415

Parent Bank

	2014			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets				
Loans and Receivables:				
Cash and other cash items	**P 41,237**	**P -**	**P 41,237**	**P 41,237**
Due from BSP	**258,416**	**-**	**258,416**	**258,416**
Due from other banks	**43,165**	**-**	**43,165**	**43,165**
Loans and other receivables	**1,182,184**	**-**	**1,182,184**	**1,198,795**
Other resources	**3,652**	**-**	**3,652**	**3,652**
Financial assets at FVTPL	**-**	**5,313**	**5,313**	**5,313**
AFS securities*	**-**	**189,927**	**189,927**	**189,927**
	P 1,528,654	**P 195,240**	**P 1,723,894**	**P 1,740,505**
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 1,464,089**	**P -**	**P 1,464,089**	**P 1,445,056**
Bills payable	**85,069**	**-**	**85,069**	**85,718**
Subordinated notes payable	**10,030**	**-**	**10,030**	**10,347**
Other liabilities	**62,076**	**-**	**62,076**	**62,076**
At fair value:				
Other liabilities	**-**	**816**	**816**	**816**
	P 1,621,264	**P 816**	**P 1,622,080**	**P 1,604,013**

	2013							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets								
Loans and Receivables:								
Cash and other cash items	P	27,736	P	-	P	27,736	P	27,736
Due from BSP		384,361		-		384,361		384,361
Due from other banks		24,655		-		24,655		24,655
Loans and other receivables		907,393		-		907,393		922,367
Other resources		2,341		-		2,341		2,341
Financial assets at FVTPL		-		3,914		3,914		3,914
AFS securities*		-		203,553		203,553		203,553
	P	1,346,486	P	207,467	P	1,553,953	P	1,568,927
Financial Liabilities								
At amortized cost:								
Deposit liabilities	P	1,317,132	P	-	P	1,317,132	P	1,318,624
Bills payable		82,827		-		82,827		83,756
Subordinated notes payable		3,007		-		3,007		3,046
Other liabilities		54,362		-		54,362		54,362
At fair value:								
Other liabilities		-		1,628		1,628		1,628
	P	1,457,328	P	1,628	P	1,458,956	P	1,461,416

** Unquoted AFS securities (amounting to P335 and P494 for BDO Unibank Group in 2014 and 2013, respectively, and P209 and P280 for the Parent Bank in 2014and 2013, respectively) have no available fair value data, hence, are excluded for the purpose of this disclosure.*

6.2 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When BDO Unibank Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2014 and 2013 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted debt and equity securities classified as AFS securities amounting to P335 and P494 in 2014 and 2013, respectively, in BDO Unibank Group financial statements and P209 and P280 in 2014 and 2013, respectively, in the Parent Bank financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included. Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		P -	P 3,609	P -	P 3,609
Government bonds		4,199	-	-	4,199
Other debt securities		824	-	-	824
Equity securities – quoted		136	-	-	136
		5,159	3,609	-	8,768
AFS securities – net	9.2				
Government debt securities		141,566	-	-	141,566
Other debt securities		61,156	-	-	61,156
Equity securities – quoted		9,684	1	-	9,685
		212,406	1	-	212,407
		P 217,565	P 3,610	P -	P 221,175
Liabilities:					
Derivatives with negative fair values	18	P 30	P 2,550	P -	P 2,580

BDO Unibank Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2013					
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		P -	P 4,458	P -	P 4,458
Government bonds		1,984	-	-	1,984
Other debt securities		3,294	-	-	3,294
Equity securities – quoted		12	-	-	12
		5,290	4,458	-	9,748
AFS securities - net	9.2				
Government debt securities		147,906	18	-	147,924
Other debt securities		59,121	-	-	59,121
Equity securities - quoted		10,497	126	-	10,623
		217,524	144	-	217,668
		P 222,814	P 4,602	P -	P 227,416
Liabilities:					
Derivatives with negative fair values	18	P -	P 3,445	P -	P 3,445

Parent Bank

December 31, 2014

	Notes	Level 1	Level 2	Level 3	Total
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		**P -**	**P 1,112**	**P -**	**P 1,112**
Government bonds		**3,983**	**-**	**-**	**3,983**
Other debt securities		**218**	**-**	**-**	**218**
		4,201	**1,112**	**-**	**5,313**
AFS securities - net	9.2				
Government debt securities		**127,866**	**-**	**-**	**127,866**
Other debt securities		**55,881**	**-**	**-**	**55,881**
Equity securities - quoted		**6,179**	**1**	**-**	**6,180**
		189,926	**1**	**-**	**189,927**
		P 194,127	**P 1,113**	**P -**	**P 195,240**
Liabilities:					
Derivatives with negative fair values	18	**P 30**	**P 786**	**P -**	**P 816**
December 31, 2013					
Resources:					
Financial assets at FVTPL	9.1				
Derivative financial assets		P -	P 1,890	-	P 1,890
Government bonds		1,792	-	-	1,792
Other debt securities		232	-	-	232
		2,024	1,890	-	3,914
AFS securities - net	9.2				
Government debt securities		142,170	18	-	142,188
Other debt securities		54,294	-	-	54,294
Equity securities - quoted		6,945	126	-	7,071
		203,409	144	-	203,553
		P 205,433	P 2,034	P -	P 207,467

Parent Bank

	Notes	Level 1	Level 2	Level 3	Total
Liabilities:					
Derivatives with negative fair values	18	P -	P 1,628	P -	P 1,628

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

a) Equity securities

As of December 31, 2014 and 2013, instruments included in Level 1 consist of quoted equity securities classified as financial assets at FVTPL or AFS securities. These securities were valued based on their closing prices on the PSE.

Golf club shares classified as AFS securities are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

b) Debt securities

The fair value of the debt securities of BDO Unibank Group and the Parent Bank, which are categorized within Level 1, is discussed below.

(i) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEX which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

c) Derivatives

The fair value of derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2 (c)].

6.4 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

BDO Unibank Group

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Resources:				
Cash and other cash items	P 41,342	P -	P -	P 41,342
Due from BSP	269,542	-	-	269,542
Due from other banks	45,621	-	-	45,621
Loans and other receivable	-	-	1,229,918	1,229,918
Other resources	3,695	-	299	3,994
	P 360,200	P -	P 1,230,217	P 1,590,417
Liabilities:				
Deposit liabilities	P 1,395,626	P -	P 80,400	P 1,476,026
Bills payable	27,606	73,349	-	100,955
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	75,853	75,853
	P 1,423,232	P 83,696	P 156,253	P 1,663,181
December 31, 2013				
Resources:				
Cash and other cash items	P 27,824	P -	P -	P 27,824
Due from BSP	408,383	-	-	408,383
Due from other banks	26,939	-	-	26,939
Loans and other receivable	-	-	940,764	940,764
Other resources	2,243	-	174	2,417
	P 465,389	P -	P 940,938	P 1,406,327
Liabilities:				
Deposit liabilities	P 1,234,720	P -	P 112,128	P 1,346,848
Bills payable	27,829	67,264	-	95,093
Subordinated notes payable	-	3,046	-	3,046
Other liabilities	-	-	59,983	59,983
	P 1,262,549	P 70,310	P 172,111	P 1,504,970

Parent Bank

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Resources:				
Cash and other cash items	P 41,237	P -	P -	P 41,237
Due from BSP	258,416	-	-	258,416
Due from other banks	43,165	-	-	43,165
Loans and other receivable	-	-	1,198,795	1,198,795
Other resources	3,407	-	245	3,652
	P 346,225	P -	P1,199,040	P 1,545,265
Liabilities:				
Deposit liabilities	P 1,366,117	P -	P 78,939	P 1,445,056
Bills payable	27,606	58,112	-	85,718
Subordinated notes payable	-	10,347	-	10,347
Other liabilities	-	-	62,076	62,076
	P 1,393,723	P 68,459	P 141,015	P 1,603,197
December 31, 2013				
Resources:				
Cash and other cash items	P 27,736	P -	P -	P 27,736
Due from BSP	384,361	-	-	384,361
Due from other banks	24,655	-	-	24,655
Loans and other receivable	-	-	922,367	922,367
Other resources	2,243	-	98	2,341
	P 438,995	P -	P 922,465	P 1,361,460
Liabilities:				
Deposit liabilities	P 1,208,096	P -	P 110,528	P 1,318,624
Bills payable	27,829	55,927	-	83,756
Subordinated notes payable	-	3,046	-	3,046
Other liabilities	-	-	54,362	54,362
	P 1,235,925	P 58,973	P 164,890	P 1,459,788

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(i) Due from BSP and Other Banks

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(ii) AFS Securities

The fair value of AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(iii) Loans and Other Receivables

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iv) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Senior notes presented as part of Bills Payable is computed based on the average of ask and bid prices as appearing on Bloomberg.

(v) Other Resources and Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

6.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2014 and 2013 are shown below.

BDO Unibank Group

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 14,612	P 14,612
Building and improvements		-	7,897	7,897
	P -	**P -**	**P 22,509**	**P 22,509**

	2013			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 13,272	P 13,272
Building and improvements		-	4,977	4,977
	P -	P -	P 18,249	P 18,249

Parent Bank

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P -	P 13,406	P 13,406
Building and improvements		-	6,100	6,100
	P -	**P -**	**P 19,506**	**P 19,506**

	2013			
	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 12,242	P 12,242
Building and improvements		-	3,132	3,132
	P -	P -	P 15,374	P 15,374

The fair value of the investment properties of BDO Unibank Group and Parent Bank as of December 31, 2014 and 2013 (see Note 12) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers, which were used by BDO Unibank Group and Parent Bank in determining the fair value of discounted cash flows of the Investment Property.

The fair value of these investment properties were determined based on the following approaches:

(i) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(ii) *Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2014 and 2013.

6.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2014 and 2013 are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2014			
	Financial assets	**Financial liabilities available for set-off**	**Collateral received**	**Net Amount**
BDO Unibank Group				
AFS securities	P 31,574	P 22,779	P -	P 8,795
Financial assets at FVTPL				
Currency forwards	1,114	1,114	-	-
Currency swaps	4	4	-	-
Interest rate swaps	32	32	-	-
Loans and receivables				
Receivables from customers	63,986	908	63,078	-
Total	**P 96,710**	**P 24,837**	**P 63,078**	**P 8,795**
Parent Bank				
AFS securities	P 29,604	P 22,779	P -	P 6,825
Financial assets at FVTPL				
Currency swaps	4	4	-	-
Interest rate swaps	26	23	-	3
Loans and receivables				
Receivables from customers	63,079	74	62,988	17
Total	**P 92,713**	**P 22,880**	**P 62,988**	**P 6,845**

	December 31, 2013			
	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
BDO Unibank Group				
AFS securities	P 29,273	P 27,951	P -	P 1,322
Financial assets at FVTPL				
Currency forwards	428	341	-	87
Currency swaps	41	24	-	17
Interest rate swaps	21	21	-	-
Loans and receivables				
Receivables from customers	66,320	541	65,779	-
Total	P 96,083	P 28,878	65,779	P 1,426

	December 31, 2013							
		Financial assets		Financial liabilities available for set-off		Collateral received		Net Amount
Parent Bank								
AFS securities	P	27,303	P	27,303	P	-	P	-
Financial assets at FVTPL								
Currency swaps		41		24		-		17
Interest rate swaps		21		21		-		-
Loans and receivables								
Receivables from customers		65,818		353		65,387		- 78
Total	P	93,183	P	27,701	P	65,387	P	95

The currency forwards and interest rate swaps above relates to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set off and presented at net in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements:

	December 31, 2014							
		Financial liabilities		**Financial assets available for set-off**		**Collateral given**		**Net Amount**
BDO Unibank Group								
Deposits liabilities	P	70,137	P	63,078	P	-	P	7,059
Bills payable		23,977		-		23,977		-
Derivative liabilities								
Currency forwards		1,414		826		288		300
Currency swaps		28		4		-		24
Interest rate swaps		34		32		-		2
Total	**P**	**95,590**	**P**	**63,940**	**P**	**24,265**	**P**	**7,385**
Parent Bank								
Deposits liabilities	P	70,035	P	62,988	P	-	P	7,047
Bills payable		22,853		-		22,853		-
Derivative liabilities								
Currency swaps		28		4		-		24
Interest rate swaps		23		23		-		-
Total	**P**	**92,939**	**P**	**63,015**	**P**	**22,853**	**P**	**7,071**

	December 31, 2013			
	Financial liabilities	Financial assets available for se-off	Collateral given	Net Amount
BDO Unibank Group				
Deposits liabilities	P 80,384	P 65,779	P -	P 14,605
Bills payable	29,022	-	29,022	-
Derivative liabilities				
Currency forwards	341	341	-	-
Currency swaps	24	24	-	-
Interest rate swaps	124	21	-	103
Total	P 109,895	P 66,165	P 29,022	P 14,708
Parent Bank				
Deposits liabilities	P 79,984	P 65,387	P -	P 14,597
Bills payable	28,304	-	27,734	570
Derivative liabilities				
Currency swaps	24	24	-	-
Interest rate swaps	121	21	-	100
Total	P 108,433	P 65,432	P 27,734	P 15,267

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Cash and other cash items	**P 41,342**	P 27,824	**P 41,237**	P 27,736
Due from BSP:				
Mandatory reserves	**235,432**	194,830	**230,005**	190,850
Other than mandatory reserves	**34,110**	213,553	**28,411**	193,511
	269,542	408,383	**258,416**	384,361
	P 310,884	P 436,207	**P 299,653**	P 412,097

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rates of 2.0% to 2.5% in 2014, 1.9% to 3.5% in 2013, and 3.53% to 4.44% in 2012. Total interest income earned amounted to P2,026, P1,555 and P567 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P1,787, P1,363 and P432 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements (see Note 20).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Foreign banks	**P 43,559**	P 25,539	**P 41,276**	P 23,272
Local banks	**2,062**	1,400	**1,889**	1,383
	P 45,621	P 26,939	**P 43,165**	P 24,655

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
U.S. Dollar	**P 40,663**	P 22,910	**P 38,885**	P 21,678
Other foreign currencies	**4,537**	3,877	**4,207**	2,933
Philippine pesos	**421**	152	**73**	44
	P 45,621	P 26,939	**P 43,165**	P 24,655

Annual interest rates on these deposits range from 0.01% to 3.3% in 2014, 0.01% to 2.5% in 2013 and 0.01% to 3.3% in 2012 in BDO Unibank Group's financial statements and 0.01% to 0.7% in 2014, 0.01% to 1.00% in 2013 and 0.01% to 0.5% in 2012 in the Parent Bank's financial statements. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P39, P21 and P30 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P35, P18 and P16 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements (see Note 20).

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Financial assets at FVTPL	**P 8,768**	P 9,748	**P 5,313**	P 3,914
AFS securities	**212,742**	218,162	**190,136**	203,833
	P 221,510	P 227,910	**P 195,449**	P 207,747

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Government bonds	**P 4,199**	P 1,984	**P 3,983**	P 1,792
Derivative financial assets	**3,609**	4,458	**1,112**	1,890
Other debt securities	**824**	3,294	**218**	232
	8,632	9,736	**5,313**	3,914
Equity securities – quoted	**136**	12	**-**	-
	P 8,768	P 9,748	**P 5,313**	P 3,914

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined either directly or indirectly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P37, P440 and P178 in 2014, 2013 and 2012, respectively, in BDO Unibank Group's financial statements and P65, (P17) and P269 in 2014, 2013 and 2012, respectively, in the Parent Bank's financial statements. These are included as part of Trading gain – net under Other Operating Income in the statements of income (see Note 22).

Foreign currency-denominated securities amounted to P2,242 and P2,310 as of December 31, 2014 and 2013, respectively, in BDO Unibank Group's financial statements and P1,993 and P2,103 as of December 31, 2014 and 2013, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another. The credit default swaps represent commitment of the counterparty to swap the note and deposit with high yielding securities upon the occurrence of the reference event by the reference entity.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and liabilities are shown below.

BDO Unibank Group

	2014			2013		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 195,151**	**P 596**	**P 401**	P 155,223	P 1,340	P 1,209
Cross currency swaps	**62,196**	**2,918**	**2,040**	95,978	2,906	2,048
Interest rate swaps	**17,961**	**95**	**109**	15,339	162	154
ROP warrants	**15,021**	**-**	**30**	15,021	-	34
Options	**-**	**-**	**-**	638	50	-
Credit default swaps	**-**	**-**	**-**	266	-	-
	P 290,329	**P 3,609**	**P 2,580**	P 282,465	P 4,458	P 3,445

Parent Bank

	2014			2013		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 195,146**	**P 596**	**P 397**	P 155,050	P 1,336	P 1,208
Cross currency swaps	**16,650**	**425**	**305**	14,568	347	242
ROP warrants	**15,021**	**-**	**30**	15,021	-	34
Interest rate swaps	**11,849**	**91**	**84**	12,947	157	144
Options	**-**	**-**	**-**	638	50	-
	P 238,666	**P 1,112**	**P 816**	P 198,224	P 1,890	P 1,628

9.2 AFS Securities

AFS securities consist of the following:

	Note	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Government debt securities		**P 141,578**	P 147,945	**P 127,866**	P 142,207
Other debt securities:					
Quoted		**62,291**	60,238	**56,908**	55,295
Not quoted		**243**	399	**243**	243
Equity securities:					
Quoted		**9,993**	10,946	**6,460**	7,351
Not quoted		**812**	697	**574**	530
		214,917	220,225	**192,051**	205,626
Allowance for impairment	14	**(2,175)**	(2,063)	**(1,915)**	(1,793)
		P 212,742	P 218,162	**P 190,136**	P 203,833

As to currency, this account is composed of the following:

	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Foreign currencies	**P 154,132**	P 182,777	**P 147,136**	P 177,592
Philippine peso	**58,610**	35,385	**43,000**	26,241
	P 212,742	P 218,162	**P 190,136**	P 203,833

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0% to 11.6% in 2014 and 0% to 13.0% in both 2013 and 2012 for BDO Unibank Group's financial statements while 0% to 11.6% in 2014, 0% to 11.8% in 2013 and 0% to 13.0% in 2012 in the Parent Bank's financial statements.

As of December 31, 2014 and 2013, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,027 and P1,019, respectively, in the Parent Bank financial statements. These investments are fully provided with allowance for impairment as of December 31, 2014 and 2013.

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

The fair values of government debt and quoted equity and other debt securities have been determined directly by reference to published prices generated in an active market (see Note 6.3).

For unquoted AFS securities, the fair value is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows. Accordingly, unquoted AFS securities are carried at cost.

Changes in AFS securities are presented below.

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Balance at beginning of year	**P 218,162**	P 131,154	**P 203,833**	P 123,633
Disposals	**(380,568)**	(616,356)	**(370,443)**	(598,722)
Additions	**377,961**	606,540	**360,013**	589,025
Unrealized gains (losses)	**(2,440)**	(12,410)	**(2,846)**	(12,334)
Reclassification from AFS securities to Loans and receivables	**(1,380)**	(1,000)	**(1,380)**	(1,000)
Foreign currency revaluation	**1,119**	13,493	**1,081**	13,267
Impairment recovery (loss)	**(112)**	1,111	**(122)**	1,124
Reclassification from HTM investments to AFS Securities	**-**	95,860	**-**	88,840
Reclassification from AFS securities to Equity investments	**-**	(230)	**-**	-
Balance at end of year	**P 212,742**	P 218,162	**P 190,136**	P 203,833

Government securities with an aggregate principal amount of P29,604 and P27,303 as of December 31, 2014 and 2013 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 29). These government securities were included in the reclassification from HTM investments in 2013 (see Note 9.3).

As mentioned in Note 25, certain government debt securities are deposited with the BSP.

9.3 HTM Investments

In 2013, the BDO Unibank Group and the Parent Bank reclassified its entire HTM investments to AFS securities with a carrying value of P95,860 and P88,840, respectively, in anticipation of its planned disposal in accordance with PAS 39.

During 2013, the BDO Unibank Group and the Parent Bank disposed of previously classified HTM investments amounting to P47,182 and P40,413, respectively. The related trading gains on disposal recognized by BDO Unibank Group and the Parent Bank amounted to P7,907 and P7,425, respectively, and are presented as part of Trading gains – net under Other Operating Income in the 2013 statement of income. As of December 31, 2014 and 2013, the market value of the remaining reclassified investments amounted to P20,430 and P56,839, respectively, for BDO Unibank Group and P20,430 and P56,334, respectively, for the Parent Bank.

Changes in the HTM investment account for the year ended December 31, 2013 are summarized below.

	BDO Unibank Group	Parent Bank
Balance at beginning of year	P 96,963	P 89,606
Reclassification to AFS securities	(95,860)	(88,840)
Maturities	(4,368)	(4,368)
Additions	3,586	3,586
Foreign currency revaluation	(321)	16
Balance at end of year	P -	P -

9.4 Reclassification of Investment Securities

BDO Unibank Group recognized the deterioration of the world's financial markets that occurred in the third quarter of 2008. The enormity and extent of the global credit crisis was crystallized by the substantial government programs instituted by major economies in response to the crisis, including temporary liquidity facilities, outright purchase of commercial papers and mortgaged-backed securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

In 2008, BDO Unibank Group chose to avail of the regulatory relief on specific financial assets granted by the BSP under the governing provisions of Circular No. 628, which permitted the reclassification of certain financial assets to help banks cope with the adverse impact of the global financial crisis.

Accordingly, BDO Unibank Group reclassified in 2008 financial assets from FVTPL to HTM amounting to P6,297 and from AFS to HTM amounting to P25,540 (BDO Unibank Group) and P22,474 (Parent Bank). In 2013, BDO Unibank Group disposed all of its remaining financial assets at FVTPL reclassified to HTM. Moreover, as discussed in Note 9.3, BDO Unibank Group decided to reclassify its entire HTM investments to AFS securities, which include the financial assets previously coming from AFS securities. As of December 31, 2014 and 2013, the balance of such financial assets is shown below:

	Balances at			
	December 31, 2014		December 31,2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
BDO Unibank Group	P 222	P 228	P 6,129	P 6,511
Parent Bank	P 222	P 228	P 6,129	P 6,511

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Receivables from customers:					
Loans and discounts	24	**P 976,724**	P 821,338	**P 952,741**	P 805,335
Customers' liabilities under letters of credit and trust receipts		**51,547**	37,259	**51,547**	37,259
Bills purchased		**26,793**	21,493	**26,793**	21,493
Others		**35,985**	34,068	**35,985**	34,068
		1,091,049	914,158	**1,067,066**	898,155
Unearned interests or discounts		**(1,680)**	(2,673)	**(486)**	(1,438)
Allowance for impairment	14	**(26,752)**	(25,189)	**(26,226)**	(24,763)
		(28,432)	(27,862)	**(26,712)**	(26,201)
		1,062,617	886,296	**1,040,354**	871,954
Other receivables:					
Interbank loans receivables		**39,215**	19,932	**39,215**	19,932
SPURRA		**86,173**	8,407	**86,173**	8,407
Accounts receivable	24, 26	**17,840**	6,685	**9,554**	6,278
UDSCL		**6,671**	170	**6,671**	170
Sales contract receivables		**1,724**	2,363	**1,605**	2,008
Others		**110**	91	**-**	-
		151,733	37,648	**143,218**	36,795
Allowance for impairment	14	**(1,420)**	(1,391)	**(1,388)**	(1,356)
		150,313	36,257	**141,830**	35,439
		P 1,212,930	P 922,553	**P 1,182,184**	P 907,393

Non-performing loans included in the total loan portfolio of BDO Unibank Group and the Parent Bank as of December 31, 2014 and 2013 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772, which amends regulations governing non-performing loans.

	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Non-performing loans (NPL)*	**P 16,298**	P 17,511	**P 15,898**	P 17,239
Allowance for impairment	**(15,010)**	(16,542)	**(14,777)**	(16,320)
	P 1,288	P 969	**P 1,121**	P 919

* *These loans are inclusive of the Receivable from Special Purpose Vehicles (SPVs) presented under Other Resources in the BDO Unibank Group and Parent Bank financial statements (see Note 13).*

Per MORB, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

The credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Financial and insurance activities	**P 181,628**	P 138,476	**P 179,415**	P 137,411
Wholesale and retail trade	**161,425**	145,088	**158,622**	142,767
Manufacturing	**137,676**	115,116	**134,201**	111,463
Real estate activities	**114,534**	119,910	**112,264**	117,313
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**113,049**	108,598	**112,172**	108,218
Electricity, gas, steam and air-conditioning supply	**103,584**	69,086	**101,667**	68,312
Transportation and storage	**50,267**	34,278	**47,566**	31,187
Accommodation and food service activities	**32,834**	18,492	**32,827**	18,489
Information and communication	**25,462**	28,812	**24,897**	28,278
Construction	**23,196**	16,067	**19,955**	13,315
Arts, entertainment and recreation	**17,613**	3,437	**15,075**	3,356
Professional, scientific and technical services	**15,128**	18,171	**15,010**	18,113
Water supply, sewerage, waste management and remediation activities	**13,987**	14,536	**13,411**	13,939
Agriculture, forestry and fishing	**9,124**	9,643	**9,016**	9,531
Human health and social work activities	**9,316**	6,156	**8,901**	5,652
Mining and quarrying	**6,669**	6,846	**4,542**	4,464
Administrative and support services	**4,877**	2,534	**4,469**	2,219
Education	**1,827**	1,338	**1,794**	1,311
Public administrative and defense; compulsory social security	**322**	37	**303**	28
Activities of extraterritorial organizations and bodies	**53**	-	**53**	-
Other service activities	**66,798**	54,864	**70,420**	61,351
	P 1,089,369	P 911,485	**P 1,066,580**	P 896,717

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2014	2013	**2014**	2013
Secured:				
Real estate mortgage	**P 170,485**	P 149,332	**P 169,204**	P 148,133
Chattel mortgage	**81,889**	78,101	**67,048**	63,663
Other securities	**151,066**	155,290	**144,978**	152,348
	403,440	382,723	**381,230**	364,144
Unsecured	**685,929**	528,762	**685,350**	532,573
	P 1,089,369	P 911,485	**P 1,066,580**	P 896,717

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to type of interest rate follows:

	BDO Unibank Group				Parent Bank			
	2014		2013		**2014**		2013	
Variable interest rates	**P**	**812,322**	P	645,124	**P**	**800,316**	P	632,450
Fixed interest rates		**277,047**		266,361		**266,264**		264,267
	P	**1,089,369**	P	911,485	**P**	**1,066,580**	P	896,717

Loans and receivables bear annual interest rates of 0% (e.g., non-performing loans and zero percent credit card installment program) to 4.1%, 4.0% and 3.6% per month in 2014, 2013 and 2012, respectively.

BDO Unibank Group's and the Parent Bank's receivables from customers amounting to P908 and P91, respectively, as of December 31, 2014 and P541 and P431, respectively, as of December 31, 2013 are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 16).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2014 and 2013 are shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,390	P 3,996	P 15,415	P 37,256
Accumulated depreciation and amortization	-	-	(3,610)	(2,671)	(9,450)	(15,731)
Allowance for impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	**P 5,179**	**P 4,244**	**P 4,380**	**P 1,325**	**P 5,965**	**P 21,093**
December 31, 2013						
Cost	P 5,114	P 2,382	P 7,865	P 3,464	P 15,471	P 34,296
Accumulated depreciation and amortization	-	-	(3,185)	(2,288)	(10,552)	(16,025)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
January 1, 2013						
Cost	P 5,132	P 1,509	P 7,397	P 3,060	P 13,844	P 30,942
Accumulated depreciation and amortization	-	-	(2,819)	(1,960)	(9,773)	(14,552)
Net carrying amount	P 5,132	P 1,509	P 4,578	P 1,100	P 4,071	P 16,390

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Parent Bank						
December 31, 2014						
Cost	P 5,211	P 4,244	P 8,332	P 3,789	P 12,188	P 33,764
Accumulated depreciation and amortization	-	-	(3,563)	(2,528)	(8,324)	(14,415)
Allowance for Impairment	(32)	-	(400)	-	-	(432)
Net carrying amount	**P 5,179**	**P 4,244**	**P 4,369**	**P 1,261**	**P 3,864**	**P 18,917**
December 31, 2013						
Cost	P 5,114	P 2,382	P 7,806	P 3,273	P 13,107	P 31,682
Accumulated depreciation and amortization	-	-	(3,140)	(2,164)	(9,690)	(14,994)
Allowance for impairment	(29)	-	(334)	-	-	(363)
Net carrying amount	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325
January 1, 2013						
Cost	P 5,132	P 1,509	P 7,339	P 2,898	P 12,492	P 29,370
Accumulated depreciation and amortization	-	-	(2,778)	(1,860)	(9,116)	(13,754)
Net carrying amount	P 5,132	P 1,509	P 4,561	P 1,038	P 3,376	P 15,616

A reconciliation of the carrying amounts, at the beginning and end of 2014 and 2013, of premises, furniture, fixtures and equipment is shown below.

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group						
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908
Additions	99	1,856	466	565	2,984	5,970
Disposals	(2)	-	-	(5)	(117)	(124)
Reclassifications		6	(4)	3	1	6
Depreciation and amortization changes for the year	-	-	(362)	(414)	(1,822)	(2,598)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation and amortization	**P 5,179**	**P 4,244**	**P 4,380**	**P 1,325**	**P 5,965**	**P 21,093**
Balance at January 1, 2013 net of accumulated depreciation and amortization	P 5,132	P 1,509	P 4,578	P 1,100	P 4,071	P 16,390
Additions	93	1,072	245	455	2,456	4,321
Disposals	-	-	(3)	(8)	(25)	(36)
Reclassifications	15	(199)	211	-	43	70
Depreciation and amortization charges for the year	-	-	(351)	(371)	(1,626)	(2,348)
Impairment	(29)	-	(334)	-	-	(363)
Reversal of appraisal increment	(126)	-	-	-	-	(126)
Balance at December 31, 2013, net of accumulated depreciation, amortization and impairment	P 5,085	P 2,382	P 4,346	P 1,176	P 4,919	P 17,908

	Land	Construction in Progress	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Parent Bank						
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325
Additions	99	1,856	466	535	1,756	4,712
Disposals	(2)	-	-	(4)	(10)	(16)
Reclassifications	-	6	(4)	4	(1)	5
Depreciation and amortization charges for the year	-	-	(359)	(383)	(1,298)	(2,040)
Impairment	(3)	-	(66)	-	-	(69)
Balance at December 31, 2014, net of accumulated depreciation and amortization	**P 5,179**	**P 4,244**	**P 4,369**	**P 1,261**	**P 3,864**	**P 18,917**
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 5,132	P 1,509	P 4,561	P 1,038	P 3,376	P 15,616
Additions	93	1,072	245	427	1,306	3,143
Disposals	-	-	(3)	(9)	(12)	(24)
Reclassifications	15	(199)	211	-	43	70
Depreciation and amortization charges for the year	-	-	(348)	(347)	(1,296)	(1,991)
Impairment	(29)	-	(334)	-	-	(363)
Reversal of appraisal increment	(126)		-	-	-	(126)
Balance at December 31, 2013, net of accumulated depreciation, amortization and impairment	P 5,085	P 2,382	P 4,332	P 1,109	P 3,417	P 16,325

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2014 and 2013, BDO Unibank Group has complied with this requirement.

In 2014 and 2013, impairment losses amounting to P69 and P363, respectively, was recognized by BDO Unibank Group and the Parent Bank to write-down to recoverable amount certain parcels of land and buildings. The recoverable amount of Land and Building as of December 31, 2014 and 2013, respectively, was based on the appraised values of such asset.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2014 and 2013 are still being used in operations with acquisition costs amounting to P5,068 and P4,284, respectively for BDO Unibank Group and P4,959 and P4,096, respectively, for Parent Bank.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P228 and P76 in 2014, P214 and P77 in 2013 and P74 and P67 in 2012 and are presented as part of Income from assets sold or exchanged under Other Operating Income in BDO Unibank Group and Parent Bank financial statements, respectively (see Note 22). Direct expenses incurred from these properties amounted to P3 and P3 in 2014, P10 and P4 in 2013 and P15 and P5 in 2012 in BDO Unibank Group and Parent Bank financial statements, respectively.

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2014 and 2013 are shown below.

	Land	Buildings	Total
BDO Unibank Group			
December 31, 2014			
Cost	P 10,484	P 8,139	P 18,623
Accumulated depreciation	-	(2,339)	(2,339)
Allowance for impairment (see Note 14)	(2,291)	(132)	(2,423)
Net carrying amount	**P 8,193**	**P 5,668**	**P 13,861**
December 31, 2013			
Cost	P 8,966	P 5,829	P 14,795
Accumulated depreciation	-	(2,048)	(2,048)
Allowance for impairment (see Note 14)	(2,287)	(79)	(2,366)
Net carrying amount	P 6,679	P 3,702	P 10,381
January 1, 2013			
Cost	P 9,694	P 4,040	P 13,734
Accumulated depreciation	-	(2,017)	(2,017)
Allowance for impairment (see Note 14)	(2,542)	(86)	(2,628)
Net carrying amount	P 7,152	P 1,937	P 9,089
Parent Bank			
December 31, 2014			
Cost	P 9,217	P 6,099	P 15,316
Accumulated depreciation	-	(2,140)	(2,140)
Allowance for impairment (see Note 14)	(2,230)	(88)	(2,318)
Net carrying amount	**P 6,987**	**P 3,871**	**P 10,858**
December 31, 2013			
Cost	P 7,882	P 3,825	P 11,707
Accumulated depreciation	-	(1,921)	(1,921)
Allowance for impairment (see Note 14)	(2,233)	(35)	(2,268)
Net carrying amount	P 5,649	P 1,869	P 7,518

	Land		Buildings		Total
Parent Bank					
January 1, 2013					
Cost	P	9,229	P	3,817	P 13,046
Accumulated depreciation		-	(	1,914)	(1,914)
Allowance for impairment (see Note 14)	(	2,498)	(	25)	(2,523)
Net carrying amount	P	6,731	P	1,878	P 8,609

A reconciliation of the carrying amounts, at the beginning and end of 2014 and 2013, of investment properties is shown below.

	Land	Buildings	Total
BDO Unibank Group			
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 6,679	P 3,702	P 10,381
Additions	1,370	1,178	2,548
Disposals	(1,020)	(151)	(1,171)
Reclassifications	1,164	1,390	2,554
Depreciation for the year	-	(451)	(451)
Balance at December 31, 2014, net of accumulated depreciation and impairment	**P 8,193**	**P 5,668**	**P 13,861**
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 7,152	P 1,937	P 9,089
Additions	953	1,872	2,825
Disposals	(1,714)	(97)	(1,811)
Reclassifications	296	235	531
Depreciation for the year	-	(245)	(245)
Impairment	(8)	-	(8)
Balance at December 31, 2013, net of accumulated depreciation and impairment	P 6,679	P 3,702	P 10,381
Parent Bank			
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 5,649	P 1,869	P 7,518
Additions	1,366	1,177	2,543
Disposals	(1,011)	(143)	(1,154)
Reclassification	983	1,366	2,349
Depreciation for the year	-	(398)	(398)
Balance at December 31, 2014, net of accumulated depreciation and impairment	**P 6,987**	**P 3,871**	**P 10,858**

	Land	Buildings	Total
Parent Bank			
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 6,731	P 1,878	P 8,609
Additions	116	69	185
Disposals	(1,691)	(91)	(1,782)
Reclassification	493	240	733
Depreciation for the year	-	(227)	(227)
Balance at December 31, 2013, net of accumulated depreciation and impairment	P 5,649	P 1,869	P 7,518

The fair value of investment properties as of December 31, 2014 and 2013, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P22,509 and P18,249, respectively, for BDO Unibank Group accounts and P19,506 and P15,374, respectively, for the Parent Bank accounts. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.5.

In 2013, BDO Unibank Group recognized impairment losses of P8 to write-down certain investment properties to its recoverable amount and is presented as part of Impairment Losses in the 2013 statement of income (nil in 2014). The recoverable amount of such assets as of December 31, 2013 was based on value in use computed through discounted cash flows method at an effective rate of 1.48% and 1.50% in 2014 and 2013, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, non-current assets held for sale, AFS securities or other resources. As of December 31, 2014 and 2013, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		**Parent Bank**	
	2014	2013	**2014**	2013
Investment properties	**P 9,865**	P 8,219	**P 9,554**	P 8,091
AFS securities	**1,424**	1,406	**1,424**	1,406
Non-current assets held for sale	**501**	2,490	**473**	2,161
Other resources – others	**-**	3	**-**	-
	P 11,790	P 12,118	**P 11,451**	P 11,658

13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Deferred tax assets – net	27.1	**P 6,033**	P 5,941	**P 6,213**	P 6,114
Equity investments	13.1	**5,891**	5,398	**17,027**	19,446
Deposits under escrow	13.2	**3,957**	3,957	**3,957**	3,957
Foreign currency notes and coins on hand		**3,406**	2,242	**3,406**	2,242
Branch licenses	13.3, 26.2	**3,020**	100	**3,020**	100
Receivables from SPVs	13.4	**2,820**	3,440	**2,820**	3,440
Real properties for development and sale		**2,224**	2,287	**-**	-
Goodwill	13.3, 26.1	**1,482**	1,482	**1,391**	1,391
Retirement benefit asset	23.2	**1,211**	815	**1,184**	794
Computer software – net	13.6	**779**	451	**688**	440
Customer list	26.4	**529**	-	**529**	-
Non-current assets held for sale	13.5	**501**	2,490	**473**	2,161
Prepaid documentary stamps		**460**	320	**438**	300
Margin deposits		**289**	2	**1**	1
Dividend receivable		**283**	169	**245**	97
Returned checks and other cash items		**223**	12	**223**	12
Interoffice float items – net		**-**	253	**-**	252
Others	13.6	**10,563**	8,216	**9,752**	7,512
		43,671	37,575	**51,367**	48,259
Allowance for impairment	14	**(5,921)**	(6,695)	**(8,520)**	(9,213)
		P 37,750	P 30,880	**P 42,847**	P 39,046

13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Philippine Subsidiaries					
BDO Private	100%	**P -**	P -	**P 2,579**	P 2,579
BDOSHI	100%	**-**	-	**5,684**	8,184
BDO Leasing	89%	**-**	-	**1,878**	1,878
BDO Savings	100%	**-**	-	**877**	-
BDO Elite	99%	**-**	-	**700**	1,500
BDO Capital	100%	**-**	-	**300**	300
Equimark	60%	**-**	-	**45**	45
PCIB Securities, Inc.	100%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDOI	100%	**-**	-	**11**	11
PCI Insurance	100%	**-**	-	**8**	8
MDB Land, Inc.	100%	**-**	-	**-**	-
Balance carried forward		**P -**	P -	**P 12,155**	P 14,578

	% Interest Held	BDO Unibank Group 2014	BDO Unibank Group 2013	Parent Bank 2014	Parent Bank 2013
Balance brought forward		**P -**	P -	**P 12,155**	P 14,578
Foreign Subsidiaries					
BDORO Europe Ltd.	100%	**-**	-	**169**	169
Express Padala (Hongkong), Ltd.	100%	**-**	-	**28**	28
BDO Remit (USA), Inc.	100%	**-**	-	**26**	26
BDO Remit (Japan) Ltd.	100%	**-**	-	**4**	-
PCIB Europe S.p.A.	100%	**-**	-	**1**	1
Express Padala Frankfurt GmbH	100%	**-**	-	**1**	1
BDO Remit (Canada) Ltd.	100%	**-**	-	**-**	-
		-	-	**229**	225
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
Manila North Tollways Corporation (MNTC)	12%	**1,405**	1,405	**1,405**	1,405
Generali Pilipinas Holdings, Inc. (Generali)	40%	**1,235**	1,235	**1,168**	1,168
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land, Inc.	33%	**170**	170	**170**	170
Others	*	**10**	10	**10**	10
		4,710	4,710	**4,643**	4,643
Accumulated equity in total comprehensive income:					
Balance at beginning of year		**688**	297	**-**	-
Equity in net profit		**652**	606	**-**	-
Equity in other comprehensive income		**269**	-	**-**	-
Dividends		**(428)**	(215)	**-**	-
Balance at end of year		**1,181**	688	**-**	-
Net investments in associates		**5,891**	5,398	**4,643**	4,643
		5,891	5,398	**17,027**	19,446
Allowance for impairment		**(559)**	(559)	**(3,749)**	(3,749)
		P 5,332	P 4,839	**P 13,278**	P 15,697

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2014 and 2013, except for Generali, which is at 40% at BDO Unibank Group and 38% at the Parent Bank, and for BDO Leasing which is at 89% at BDO Unibank Group and 87% at the Parent Bank.

The fair value of BDO Leasing amounts to P4,117 and P3,781 in 2014 and 2013, respectively, which have been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries are all incorporated in the Philippines, except for the following:

Foreign Subsidiaries	Country of Incorporation
Express Padala (Hongkong), Ltd.	Hong Kong
BDO Remit (USA), Inc.	United States of America
Express Padala Frankfurt GmbH	Germany
PCIB Europe S.p.A	Italy
BDORO Europe Ltd.	United Kingdom
BDO Remit (Italia) S.p.A	Italy
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited	Hongkong
BDO Remit (Macau) Ltd.	Macau

On May 30, 2012, BDORO Europe Ltd. (BDORO) was registered with the Registrar of Companies for England and Wales UK as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in United Kingdom (UK) and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. In 2012, BDORO has applied for a banking license in the UK, but the approval is still pending as of December 31, 2014.

In 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 GBP as an initial contribution to incorporate BDORO. As of December 31, 2013, the Parent Bank's outstanding investment in BDORO increased to P169.

In May 2013, BDO Capital obtained control over CBN Grupo through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established.

On August 30, 2013, BDO Capital acquired 100% of the total issued and outstanding capital stock of Averon Holdings Corporation, a company engaged primarily in the leasing business. Gain from acquisition amounted to P43 and is presented as part of Others under Other Operating Income in the 2014 statements of income.

On September 27, 2013, the Parent Bank's BOD authorized the purchase of 99.995% of the total issued and outstanding capital of BDO Savings (formerly Citibank Savings, Inc.), a thrift bank registered in the Philippines resulting to recognition of income from acquisition and branch licenses amounting to P18 and P380, respectively (see Note 26.1).

On January 30, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Japan) Ltd., in Tokyo, Japan. BDO Remit (Japan) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on October 10, 2013 and was incorporated on August 6, 2014.

On March 23, 2013, the Parent Bank's BOD approved the establishment of a wholly-owned remittance subsidiary, BDO Remit (Canada) Ltd., in Vancouver, Canada. BDO Remit (Canada) Ltd. will operate as a remittance business and function as a marketing office of the Parent Bank. This was approved by the BSP on November 28, 2013 and was incorporated on June 23, 2014. The payment of the subscribed shares amounting to CND 500,000 will be paid by the Parent Bank in 2015.

BDO Unibank Group includes one subsidiary, BDO Leasing, with significant non-controlling interest (NCI):

Name	Proportion of ownership interest and voting rights held by NCI		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:

		BDO Unibank Group		Parent Bank	
	Note	2014	2013	2014	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:

		BDO Unibank Group		Parent Bank	
	Note	**2014**	2013	**2014**	2013
Trust department accounts	25	**P 817,447**	P 771,372	**P 597,537**	P 581,097
Forward exchange sold		**140,322**	133,684	**120,045**	92,892
Committed credit lines		**121,794**	121,989	**121,575**	121,676
Forward exchange bought		**121,434**	117,517	**98,584**	76,726
Unused commercial letters of credit		**54,109**	37,423	**54,109**	37,423
ROP warrants		**15,021**	15,021	**15,021**	15,021
Interest rate swap receivable		**8,756**	7,670	**5,900**	6,474
Interest rate swap payable		**8,756**	7,670	**5,900**	6,474
Spot exchange sold		**7,111**	7,490	**7,105**	7,091
Bills for collection		**6,978**	7,375	**6,978**	7,375
Outstanding guarantees issued		**3,446**	664	**3,446**	664
Late deposits/payments received		**3,318**	2,534	**3,318**	2,534
Spot exchange bought		**2,522**	4,774	**2,516**	4,375
Export letters of credit confirmed		**240**	39	**240**	39
Credit default swap		**-**	133	**-**	-
Other contingent accounts		**1,138**	1,135	**1,138**	1,135

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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 March 31, 2017, 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 three months ended March 31, 2017 and 2016, and a summary of selected accounting policies and other explanatory information (hereinafter referred to as "interim consolidated financial 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 (PFRS), 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 March 31, 2017, and their consolidated financial performance and their consolidated cash flows for the three months ended March 31, 2017 and 2016 in accordance with PFRS.

Other Matter

We have previously audited the consolidated financial statements of BDO Unibank, Inc. and subsidiaries as of December 31, 2016, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered our report thereon dated February 24, 2017.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5908621, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until Apr. 30, 2018)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-7-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

July 31, 2017

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2017
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2016)
(Amounts in Millions of Philippine Pesos)

	Notes		**March 31, 2017**		December 31, 2016
R E S O U R C E S					
CASH AND OTHER CASH ITEMS	5	**P**	**31,551**	P	40,909
DUE FROM BANGKO SENTRAL NG PILIPINAS	5		**378,530**		318,002
DUE FROM OTHER BANKS	6		**40,149**		41,794
TRADING AND INVESTMENT SECURITIES - Net	7		**298,433**		269,042
LOANS AND OTHER RECEIVABLES - Net	8		**1,566,193**		1,573,924
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9		**27,018**		26,912
INVESTMENT PROPERTIES - Net	10		**15,330**		15,188
OTHER RESOURCES - Net	11		**38,666**		39,187
TOTAL RESOURCES		**P**	**2,395,870**	P	2,324,958
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	13	**P**	**1,928,106**	P	1,905,204
BILLS PAYABLE	14		**81,749**		100,556
SUBORDINATED NOTES PAYABLE	15		**10,030**		10,030
INSURANCE CONTRACT LIABILITIES	16		**22,574**		20,548
OTHER LIABILITIES	17		**71,050**		71,085
Total Liabilities			**2,113,509**		2,107,423
EQUITY	18				
Attributable to:					
Shareholders of the Parent Bank			**281,673**		216,792
Non-controlling Interest			**688**		743
Total Equity			**282,361**		217,535
TOTAL LIABILITIES AND EQUITY		**P**	**2,395,870**	P	2,324,958

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(UNAUDITED)
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes	2017	2016
INTEREST INCOME ON			
Loans and other receivables	8	**P 19,866**	P 17,621
Trading and investment securities	7	**2,199**	1,840
Due from Bangko Sentral ng Pilipinas and other banks	5, 6	**533**	134
Others		**6**	5
		22,604	19,600
INTEREST EXPENSE ON			
Deposit liabilities	13	**3,432**	3,355
Bills payable and other liabilities	14, 15, 17	**729**	773
		4,161	4,128
NET INTEREST INCOME		**18,443**	15,472
IMPAIRMENT LOSSES	12	**1,423**	827
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**17,020**	14,645
OTHER OPERATING INCOME	19	**11,401**	7,480
OTHER OPERATING EXPENSES	19	**20,861**	15,002
PROFIT BEFORE TAX		**7,560**	7,123
TAX EXPENSE	25	**1,722**	1,638
NET PROFIT		**P 5,838**	P 5,485
Attributable To:			
Shareholders of the Parent Bank		**P 5,831**	P 5,478
Non-controlling Interest		**7**	7
		P 5,838	P 5,485
Earnings Per Share	26		
Basic		**P 1.31**	P 1.35
Diluted		**P 1.31**	P 1.35

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Note	**2017**	2016
NET PROFIT		**P 5,838**	P 5,485
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss:			
Net unrealized fair value gains on available-for-sale securities, net of tax	7	**1,025**	287
Translation adjustment related to foreign operations		**(22)**	30
		1,003	317
Item that will not be reclassified subsequently to profit or loss -			
Actuarial losses on remeasurement of retirement benefit asset, net of tax		**(181)**	-
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method		**(2)**	30
Total Other Comprehensive Income, net of tax		**820**	347
TOTAL COMPREHENSIVE INCOME		**P 6,658**	P 5,832
Attributable To:			
Shareholders of the Parent Bank		**P 6,663**	P 5,838
Non-controlling Interest		**(5)**	(6)
		P 6,658	P 5,832

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(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	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interest	Total Equity
BALANCE AT JANUARY 1, 2017		P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 109,216	(P 3,919)	(P 4,259)	P 1,008	(P 13)	(P 2)	P 216,792	P 743	P 217,535
Transaction with owners:	18														
Stock rights issuance		7,164	-	52,662	-	-	-	-	-	-	-	-	59,826	-	59,826
Issuance of shares during the year		8	-	34	-	-	-	-	-	-	-	-	42	-	42
Cash dividends		-	-	-	-	-	(1,650)	-	-	-	-	-	(1,650)	(50)	(1,700)
		7,172	-	52,696	-	-	(1,650)	-	-	-	-	-	58,218	(50)	58,168
Total comprehensive income (loss)		-	-	-	-	-	5,831	1,037	(181)	-	(22)	(2)	6,663	(5)	6,658
Transfer to (from) Surplus Free:	18														
Appropriations during the period		-	-	-	8	-	(8)	-	-	-	-	-	-	-	-
Trust reserve		-	-	-	66	-	(66)	-	-	-	-	-	-	-	-
		-	-	-	74	-	(74)	-	-	-	-	-	-	-	-
BALANCE AT MARCH 31, 2017		**P 43,672**	**P 5,150**	**P 122,823**	**P 3,046**	**P 12**	**P 113,323**	**(P 2,882)**	**(P 4,440)**	**P 1,008**	**(P 35)**	**(P 4)**	**P 281,673**	**P 688**	**P 282,361**
BALANCE AT JANUARY 1, 2016		P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,118	(P 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613
Transaction with owners -	18														
Cash dividends		-	-	-	-	-	(1,433)	-	-	-	-	-	(1,433)	(50)	(1,483)
Total comprehensive income (loss)		-	-	-	-	-	5,478	294	-	-	36	30	5,838	(6)	5,832
Transfer to (from) Surplus Free:	18														
Appropriation during the period		-	-	-	7	-	(7)	-	-	-	-	-	-	-	-
Trust reserves		-	-	-	59	-	(59)	-	-	-	-	-	-	-	-
		-	-	-	66	-	(66)	-	-	-	-	-	-	-	-
Other adjustment -	24														
Change in ownership interest in subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	113	113
BALANCE AT MARCH 31, 2016		P 36,453	P 5,150	P 69,936	P 2,762	P 12	P 92,097	(P 328)	(P 3,614)	P 1,008	(P 24)	(P 57)	P 203,395	P 680	P 204,075

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(UNAUDITED)
(Amounts in Millions of Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 7,560	P 7,123
Adjustments for:			
Interest received		22,861	20,148
Interest income		(22,604)	(19,600)
Interest expense		4,161	4,128
Interest paid		(4,109)	(4,047)
Impairment losses	12	1,423	827
Depreciation and amortization	9, 10, 11	1,323	1,112
Fair value gain on financial assets at fair value through profit or loss (FVTPL)		(665)	(129)
Share in net profit of associates	11	(142)	(245)
Operating profit before changes in operating resources and liabilities		9,808	9,317
Decrease (increase) in financial assets at FVTPL		(1,274)	2,247
Decrease in loans and other receivables		1,035	5,366
Increase in investment properties		(300)	(300)
Decrease (increase) in other resources		(1,770)	609
Increase in deposit liabilities		22,690	40,257
Increase in insurance contract liabilities		2,026	-
Increase (decrease) in other liabilities		1,624	(1,238)
Cash generated from operations		33,839	56,258
Cash paid for income taxes		(1,981)	(1,776)
Net Cash From Operating Activities		31,858	54,482
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of held-to-maturity (HTM) investments		(37,480)	(29,164)
Acquisitions of available-for-sale (AFS) securities		(18,303)	(14,429)
Maturities of HTM investments		15,870	11,614
Proceeds from disposals of AFS securities		13,690	27,362
Acquisitions of premises, furniture, fixtures and equipment	9	(1,083)	(1,254)
Disposals of premises, furniture, fixtures and equipment	9	20	16
Net Cash Used in Investing Activities		(27,286)	(5,855)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of stock rights	18	59,826	-
Repayment of senior notes	14	(13,995)	-
Net payments of bills payable		(4,674)	(5,382)
Dividends paid	18	(1,700)	(1,483)
Proceeds from issuance of primary shares	18	42	-
Net Cash From (Used in) Financing Activities		39,499	(6,865)
NET INCREASE IN CASH AND CASH EQUIVALENTS ***(carried forward)***		P 44,071	P 41,762

	Notes	2017	2016
NET INCREASE IN CASH AND CASH EQUIVALENTS *(brought forward)*		**P 44,071**	P 41,762
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and other cash items	5	**40,909**	42,729
Due from Bangko Sentral ng Pilipinas	5	**318,002**	271,808
Due from other banks	6	**41,794**	24,837
Securities purchased under reverse repurchase agreement	8	**14,302**	69,490
Foreign currency notes and coins	11	**3,338**	3,244
		418,345	412,108
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and other cash items	5	**31,551**	34,478
Due from Bangko Sentral ng Pilipinas	5	**378,530**	265,209
Due from other banks	6	**40,149**	36,052
Securities purchased under reverse repurchase agreement	8	**9,501**	115,576
Foreign currency notes and coins	11	**2,685**	2,555
		P 462,416	P 453,870

Supplemental Information on Non-cash Investing Activity -

In 2016, after the end of the two-year tainting period, BDO Unibank, Inc. and subsidiaries reclassified AFS securities with a carrying value of P107,362 to HTM investments (see Note 7).

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 8 and 11).

See Notes to Interim Consolidated Financial Information.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL INFORMATION
MARCH 31, 2017 AND 2016
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2016)
(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 Philippine Securities and Exchange Commission (SEC) granted the Parent Bank extension of its corporate term for another 50 years from December 20, 2017 or until December 20, 2067. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private 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 March 31, 2017, BDO Unibank Group had 1,126 branches (including one foreign branch), 2,002 on-site and 1,747 off-site automated teller machines (ATMs) and 343 cash accept machines (CAMs). As of March 31, 2017, the Parent Bank had 1,001 branches (including one foreign branch), 1,835 on-site and 1,685 off-site ATMs and 343 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 in the United States. These foreign operations accounted for 1.0% and 1.2% of BDO Unibank Group's total revenues for the three months ended March 31, 2017 and 2016, respectively. These also accounts for 1.2% of BDO Unibank Group's total resources both as of March 31, 2017 and December 31, 2016.

1.2 Subsidiaries

The BDO Unibank Group holds interests in the following subsidiaries as of March 31, 2017 and December 31, 2016:

Subsidiaries	Percentage of Ownership
Rural Bank	
One Network Bank, Inc. (A Rural Bank) (ONB)	99.76%
Investment House	
BDO Capital & Investment Corporation (BDO Capital)	99.88%
Private Banking	
BDO Private Bank, Inc. (BDO Private)	100%
Leasing and Finance	
BDO Leasing and Finance, Inc. (BDO Leasing)	88.54%
Averon Holdings Corporation (Averon)	99.88%
BDO Rental, Inc. (BDO Rental)	88.54%
Securities Companies	
BDO Securities Corporation (BDO Securities)	99.88%
BDO Nomura Securities, Inc. (BDO Nomura)	51%
Armstrong Securities, Inc. (ASI)	80%
Real Estate Companies	
BDO Strategic Holdings, Inc. (BDOSHI)	100%
BDORO Europe Ltd. (BDORO)	100%
Equimark-NFC Development Corporation (Equimark)	60%
Insurance Companies	
BDO Life Assurance Holdings Corp. (BDO Life)	100%
BDO Life Assurance Company, Inc.	100%
BDO Insurance Brokers, Inc. (BDOI)	100%
PCI Insurance Brokers, Inc. (PCI Insurance)	100%
Remittance Companies	
BDO Remit (USA), Inc.	100%
Express Padala (Hongkong), Ltd.	100%
PCIB Europe S.p.A.	100%
BDO Remit (Italia) S.p.A	100%
BDO Remit (Japan) Ltd.	100%
BDO Remit (Canada) Ltd.	100%
BDO Remit Limited	100%
BDO Remit (Macau) Ltd.	100%
BDO Remit International Holdings B.V. (BDO RIH)	96.32%
Others	
PCI Realty Corporation	100%

The non-controlling interests in 2017 and 2016 represent the interests not held by BDO Unibank Group in ONB, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH.

On March 21, 2016, Express Padala Frankfurt GmbH has been dissolved from the Commercial Register in Frankfurt, Germany after the liquidation proceedings was completed.

In July 2016, BDO Capital, BDO Elite Savings Bank, Inc. (BDO Elite) and Banco de Oro Savings Bank, Inc. (BDO Savings) consummated a three-way merger transaction with BDO Capital as the surviving entity (see Note 24.3).

1.3 Approval of Interim Consolidated Financial Information

The interim consolidated financial information (unaudited) of BDO Unibank Group as of and for the three months ended March 31, 2017 (including the comparative audited financial statements as of December 31, 2016 and the unaudited financial information for the three months ended March 31, 2016) were authorized for issue by the Parent Bank's President on July 31, 2017.

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 annual consolidated financial statements of BDO Unibank Group as of and for the year ended December 31, 2016. 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 and approved by the Philippine Board of Accountancy.

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, 2016.

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 for 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 statements as of and for the year ended December 31, 2016.

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 three months ended March 31, 2017, 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.

Segment information (by service lines) as of and for the three months ended March 31, 2017 (including the comparative audited financial statements as of December 31, 2016 and the financial information for the three months ended March 31, 2016) follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
March 31, 2017 (Unaudited)								
Statement of Income								
Total interest income								
External	P 21,510	P 16	P 433	P 469	P 173	P 3	P -	P 22,604
Intersegment	46	2	-	-	4	-	(52)	-
	21,556	18	433	469	177	3	(52)	22,604
Total interest expense								
External	3,836	-	143	166	15	1	-	4,161
Intersegment	6	12	-	24	-	10	(52)	-
	3,842	12	143	190	15	11	(52)	4,161
Net interest income (expense)	17,714	6	290	279	162	(8)	-	18,443
Other operating income								
Investment banking fees	-	311	-	-	-	-	-	311
Others	8,320	78	205	285	3,397	108	(1,303)	11,090
	8,320	389	205	285	3,397	108	(1,303)	11,401
Other operating expenses								
Depreciation and amortization	1,081	11	6	204	14	7	-	1,323
Impairment losses	1,410	-	-	13	-	-	-	1,423
Others	16,282	209	333	149	2,660	96	(191)	19,538
	18,773	220	339	366	2,674	103	(191)	22,284
Profit (loss) before tax	7,261	175	156	198	885	(3)	(1,112)	7,560
Tax expense	1,426	64	50	54	122	6	-	1,722
Net profit (loss)	P 5,835	P 111	P 106	P 144	P 763	(P 9)	(P 1,112)	P 5,838
Statement of Financial Position								
Total resources								
Segment assets	P 2,275,795	P 6,824	P 63,724	P 40,966	P 34,047	P 5,260	(P 45,470)	P 2,381,146
Intangible assets	5,270	134	25	40	42	1	2,907	8,419
Deferred tax assets (liability) - net	6,432	(199)	39	53	4	(24)	-	6,305
	P 2,287,497	P 6,759	P 63,788	P 41,059	P 34,093	P 5,237	(P 42,563)	P 2,395,870
Total liabilities	P 2,002,394	P 3,288	P 58,378	P 36,104	P 27,331	P 2,152	(P 16,138)	P 2,113,509
Other segment information								
Capital expenditures	P 1,202	P 16	P 1	P 126	P 8	P 138	P -	P 1,491
Investment in associates under equity method	P 4,309	P -	P -	P 272	P -	P -	P -	P 4,581
Share in the profit of associates	P 149	P -	P -	(P 7)	P -	P -	P -	P 142

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Eliminations	Group
March 31, 2016 (Unaudited)								
Statement of Income								
Total interest income								
External	P 18,785	P 19	P 353	P 429	P -	P 14	P -	P 19,600
Intersegment	36	1	-	-	1	1	(39)	-
	18,821	20	353	429	1	15	(39)	19,600
Total interest expense								
External	3,877	-	102	149	-	-	-	4,128
Intersegment	2	16	-	12	-	9	(39)	-
	3,879	16	102	161	-	9	(39)	4,128
Net interest income	14,942	4	251	268	1	6	-	15,472
Other operating income								
Investment banking fees	-	120	-	-	-	-	-	120
Others	7,138	86	389	273	325	100	(951)	7,360
	7,138	206	389	273	325	100	(951)	7,480
Other operating expenses								
Depreciation and amortization	902	17	7	178	4	4	-	1,112
Impairment losses	809	-	-	18	-	-	-	827
Others	13,086	159	311	149	167	59	(41)	13,890
	14,797	176	318	345	171	63	(41)	15,829
Profit before tax	7,283	34	322	196	155	43	(910)	7,123
Tax expense	1,449	20	62	52	53	2	-	1,638
Net profit	P 5,834	P 14	P 260	P 144	P 102	P 41	(P 910)	P 5,485
Statement of Financial Position [December 31, 2016 (Audited)]								
Total resources								
Segment assets	P 2,204,555	P 5,794	P 62,258	P 38,802	P 30,047	P 5,306	(P 36,508)	P 2,310,254
Intangible assets	5,212	135	26	43	46	1	2,907	8,370
Deferred tax assets (liability) - net	6,455	(184)	37	41	11	(26)	-	6,334
	P 2,216,222	P 5,745	P 62,321	P 38,886	P 30,104	P 5,281	(P 33,601)	P 2,324,958
Total liabilities	P 1,997,541	P 2,378	P 57,064	P 33,536	P 24,730	P 1,968	(P 9,794)	P 2,107,423
Other segment information [March 31, 2016 (Unaudited)]								
Capital expenditures	P 1,376	P 10	P 5	P 159	P 14	P 152	P -	P 1,716
Investment in associates under equity method	P 5,747	P 93	P -	P 300	P -	P -	P -	P 6,140
Share in the profit of associates	P 238	P 7	P -	P -	P -	P -	P -	P 245

5. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash and other cash items	**P 31,551**	P 40,909
Due from BSP		
Mandatory reserves	**298,356**	292,720
Other than mandatory reserves	**80,174**	25,282
	378,530	318,002
	P 410,081	P 358,911

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 rate ranging from 2.50% to 3.49% in 2017 and interest rate of 2.50% in 2016.

6. DUE FROM OTHER BANKS

The balance of this account represents regular deposits with the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Foreign banks	**P 37,813**	P 37,357
Local banks	**2,336**	4,437
	P 40,149	P 41,794

Annual interest rates on these deposits range from 0.01% to 2.38% both in 2017 and 2016. 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.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Financial assets at fair value through profit or loss (FVTPL)	**P 15,942**	P 14,024
Available-for-sale (AFS) securities – net	**113,867**	108,132
Held-to-maturity (HTM) investments	**168,624**	146,886
	P 298,433	P 269,042

7.1 Financial Assets at FVTPL

This account is composed of the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Derivative financial assets	**P 6,455**	P 6,845
Government debt securities	**3,713**	3,001
Other debt securities	**2,458**	1,841
	12,626	11,687
Equity securities – quoted	**3,316**	2,337
	P 15,942	P 14,024

Annual coupon interest rates on government and other debt securities range from 0.09% to 10.63% in 2017 and 2016.

7.2 AFS Securities

BDO Unibank Group's AFS securities consist of the following:

	Note	**March 31, 2017 (Unaudited)**	December 31, 2016 (Audited)
Government debt securities		**P 49,765**	P 49,478
Other debt securities:			
Quoted		**47,742**	45,289
Not quoted		**699**	243
Equity securities:			
Quoted		**19,259**	16,711
Not quoted		**729**	729
		118,194	112,450
Allowance for impairment	12	**(4,327)**	(4,318)
		P 113,867	P 108,132

Government debt securities issued by the Republic of the Philippines and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual coupon rates ranging from 2.00% to 12.13% both in 2017 and 2016.

Certain AFS securities of BDO Unibank Group amounting to P2,750 as of December 31, 2016 (nil as of March 31, 2017), 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 March 31, 2017 and December 31, 2016, the market value of the remaining reclassified investments of BDO Unibank Group amounted to P1,487 and P1,939, respectively.

7.3 HTM Investments

This account is composed of the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Government debt securities	**P 142,922**	P 119,182
Other debt securities:		
Quoted	**24,182**	26,742
Unquoted	**1,520**	962
	P 168,624	P 146,886

In 2016, after the end of the two-year tainting period, BDO Unibank Group reclassified AFS securities with a carrying value as of reclassification date of P107,362 and unrealized fair value losses of P2,181 to HTM investments. Of the reclassified unrealized fair value losses, a total of P25 and P275 were amortized by the BDO Unibank Group in 2017 and 2016, respectively, resulting in unamortized fair value losses of P591 and P1,906 as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the outstanding balance of the reclassified securities of the BDO Unibank Group amounted to P85,236 and P96,504, respectively.

Annual coupon interest rates on government and other debt securities range from 0.00% to 10.25% in 2017 and from 1.15% to 10.63% in 2016.

8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	**March 31, 2017 (Unaudited)**	December 31, 2016 (Audited)
Receivables from customers:			
Loans and discounts	21	**P 1,440,886**	P 1,376,870
Customers' liabilities under letters of credit and trust receipts		**46,133**	49,148
Bills purchased		**9,842**	10,527
Credit card receivables		**48,096**	46,761
		1,544,957	1,483,306
Unearned interests or discounts		**(1,299)**	(1,302)
Allowance for impairment	12	**(27,283)**	(26,161)
		(28,582)	(27,463)
		1,516,375	1,455,842
Other receivables:			
Interbank loans receivables		**24,142**	73,440
Unquoted debt securities classified as loans		**10,209**	22,546
Securities purchased under reverse repurchase agreement		**9,501**	14,302
Accounts receivable	21, 27.1.1	**5,977**	7,681
Sales contract receivables		**1,490**	1,678
Others		**351**	360
		51,670	120,007
Allowance for impairment	12	**(1,852)**	(1,925)
		49,818	118,082
		P 1,566,193	P 1,573,924

The Group's credit concentration of receivables from customers (net of unearned interests or discounts) as to industry follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Wholesale and retail trade	**P 201,768**	P 206,205
Real estate activities	**199,695**	205,376
Manufacturing	**196,086**	191,720
Financial and insurance activities	**162,444**	150,735
Electricity, gas, steam and air-conditioning supply	**156,058**	137,381
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**136,488**	127,236
Transportation and storage	**101,786**	99,871
Arts, entertainment and recreation	**60,227**	54,401
Accommodation and food service activities	**41,335**	43,837
Information and communication	**31,694**	27,334
Construction	**30,512**	29,856
Mining and quarrying	**25,723**	9,632
Human health and social work activities	**16,670**	16,282
Agriculture, forestry and fishing	**13,334**	14,054
Water supply, sewerage, waste management and remediation activities	**12,510**	12,278
Education	**11,815**	10,840
Professional, scientific and technical services	**11,674**	11,042
Administrative and support services	**8,796**	8,662
Public administrative and defense; compulsory social security	**548**	535
Activities of extraterritorial organizations and bodies	**70**	66
Other service activities	**124,425**	124,661
	P 1,543,658	P 1,482,004

The breakdown of total loans (receivable from customers, net of unearned interests or discounts), as to secured and unsecured follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Secured:		
Real estate mortgage	**P 210,139**	P 196,963
Chattel mortgage	**102,458**	98,619
Other securities	**133,432**	116,737
	446,029	412,319
Unsecured	**1,097,629**	1,069,685
	P 1,543,658	P 1,482,004

Loans and other receivables bear interest rates of 0.00% (e.g., non-performing loans and zero percent credit card installment program) to 4.00% per month in 2017 and 2016.

BDO Unibank Group's loans and other receivables amounting to P1,990 and P1,847 as of March 31, 2017 and December 31, 2016, respectively, are pledged as collateral to secure certain borrowings presented under Bills Payable account in the consolidated statements 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 March 31, 2017 and December 31, 2016 of premises, furniture, fixtures and equipment is shown below.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period, net of accumulated depreciation, amortization and allowance for impairment	**P 26,912**	P 24,995
Additions	**1,083**	5,537
Depreciation and amortization charges for the period	**(1,042)**	(3,821)
Reclassification	**89**	291
Disposals	**(24)**	(90)
Balance at end of period, net of accumulated depreciation, amortization and allowance for impairment	**P 27,018**	P 26,912

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 March 31, 2017 and December 31, 2016 of investment properties is shown in the succeeding page.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period, net of accumulated depreciation and allowance for impairment	**P 15,188**	P 14,633
Additions	**408**	1,617
Depreciation charges for the period	**(139)**	(507)
Disposals	**(109)**	(779)
Reclassifications	**(18)**	224
Balance at end of period, net of accumulated depreciation and allowance for impairment	**P 15,330**	P 15,188

11. OTHER RESOURCES

Other resources consist of the following:

	Notes	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Deferred tax assets – net	25	**P 6,305**	P 6,334
Deferred charges		**5,273**	4,842
Equity investments	11.1	**4,581**	4,449
Goodwill	11.3, 24	**4,435**	4,435
Branch licenses	11.3	**3,020**	3,020
Foreign currency notes and coins on hand		**2,685**	3,338
Margin deposits		**2,409**	2,223
Prepaid expenses		**2,250**	976
Computer software – net	11.5	**1,707**	1,649
Real properties for development and sale		**1,662**	1,671
Retirement benefit assets		**894**	709
Credit card acquiring		**887**	3,113
Prepaid documentary stamps		**740**	467
Deposits under escrow	11.2	**672**	672
Non-current assets held for sale	11.4	**585**	712
Customer lists – net	11.5	**487**	487
Trademark – net	11.5, 24.2	**149**	157
Dividend receivable		**62**	71
Returned checks and other cash items		**30**	100
Others		**2,387**	2,328
		41,220	41,753
Allowance for impairment	12	**(2,554)**	(2,566)
		P 38,666	P 39,187

11.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	**March 31, 2017 (Unaudited)**	December 31, 2016 (Audited)
Acquisition costs:			
SM Keppel Land, Inc.	50%	**P 1,658**	P 1,658
NLEX Corporation (previously Manila North Tollways Corporation)	12.40%	**1,405**	1,405
MMPC Auto Financial Services Corporation (MAFSC)	34.97%	**300**	300
Northpine Land, Incorporated	20%	**232**	232
Taal Land, Inc.	33%	**170**	170
Others*	*	**10**	10
Total acquisition costs		**3,775**	3,775
Accumulated equity in total comprehensive income:			
Balance at beginning of period		**674**	1,031
Equity in net profit		**142**	481
Equity in other comprehensive income (loss)		**(4)**	1
Dividends		**(6)**	(505)
Step up acquisition of BDO Life**		**-**	(334)
Balance at end of period		**806**	674
Net investments in associates		**4,581**	4,449
Allowance for impairment		**(39)**	(39)
		P 4,542	P 4,410

* *This consists of various insignificant investments in associates; thus, percentage held is no longer disclosed.*

** *BDO Life is an associate of BDO Unibank Group in 2015. It became a subsidiary when the Parent Bank acquired full ownership in 2016 (see Note 24.4).*

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, the Parent Bank received an amount of P4,650 for the partial termination of escrow. For the three months ended March 31, 2016, BDO Unibank Group recognized income amounting to nil and P62 for the three months ended March 31, 2017 and 2016, respectively, which is presented as part of Miscellaneous under Other Operating Income account in the consolidated statements of income (see Note 19). As of March 31, 2017 and December 31, 2016, BDO Unibank Group provided an allowance for impairment amounting to P400.

11.3 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the BDO Unibank Group over the fair value of the net assets acquired at the date of acquisition, including branch licenses, and relates mainly to business synergy for economies of scale. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines, American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc. and BDO RIH, BDO Savings and ONB, which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014 and 2015, respectively.

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. and BDO Savings in addition to the current branches of the acquired banks.

11.4 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. No impairment loss has been recognized as of March 31, 2017 and December 31, 2016.

11.5 Others

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio (see Note 24.2) amounted to P8 and nil for the three months ended March 31, 2017 and 2016, respectively. This is recorded under Amortization of intangibles under Other Operating Expenses account in the consolidated statements of income (see Note 19).

Amortization expense on computer software licenses amounted to P134 and P89 for the three months ended March 31, 2017 and 2016, respectively, is presented as Amortization of intangibles under Other Operating Expenses account in the consolidated statements of income (see Note 19).

Depreciation expense on certain assets amounting nil and P3 for the three months ended March 31, 2017 and 2016, respectively, is presented as part of Occupancy under Other Operating Expenses account in the consolidated statements of income (see Note 19).

The impairment provision to the Customer list, which was recognized as a result of the Parent Bank's acquisition of a trust business of a certain bank in 2014, was recognized through direct write-off to the cost of the asset. For the three months ended March 31, 2017 and 2016, no additional impairment loss was recognized.

12. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of year:			
AFS securities	7.2	**P 4,318**	P 3,936
Loans and other receivables	8	**28,086**	27,659
Bank premises		**512**	512
Investment properties		**2,069**	2,305
Other resources	11	**2,566**	2,553
		37,551	36,965
Impairment losses – net		**1,423**	3,749
Write-offs		**(406)**	(3,330)
Foreign currency revaluation		**41**	237
Business combination		**-**	189
Adjustments		**-**	(142)
Reversals		**-**	(117)
		P 38,609	P 37,551
Balance at end of year:			
AFS securities	7.2	**4,327**	4,318
Loans and other receivables	8	**29,135**	28,086
Bank premises		**512**	512
Investment properties		**2,081**	2,069
Other resources	11	**2,554**	2,566
		P 38,609	P 37,551

Total allowance for impairment transferred upon consolidation of BDO Life in 2016 amounted to P189.

13. DEPOSIT LIABILITIES

The breakdown of this account is presented below.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Demand	**P 117,130**	P 114,284
Savings	**1,287,110**	1,267,983
Time	**523,866**	522,937
	P 1,928,106	P 1,905,204

The breakdown of this account as to currency follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Philippine pesos	**P 1,537,874**	P 1,521,183
Foreign currencies	**390,232**	384,021
	P 1,928,106	P 1,905,204

The maturity profile of deposit liabilities is presented below.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Less than one year	**P 1,789,572**	P 1,759,153
One to five years	**54,213**	62,299
Beyond five years	**84,321**	83,752
	P 1,928,106	P 1,905,204

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 2017 and 2016. 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 Time Deposits (LTNCD) as of March 31, 2017 and December 31, 2016 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:

	Note	**March 31, 2017 (Unaudited)**	December 31, 2016 (Audited)
Foreign banks		**P 39,157**	P 36,545
Senior notes	14.1	**15,217**	30,150
Local banks		**11,465**	10,334
Deposit substitutes		**-**	602
Others		**15,910**	22,925
		P 81,749	P 100,556

The breakdown of this account as to currency follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Foreign currencies	**P 61,019**	P 76,177
Philippine pesos	**20,730**	24,379
	P 81,749	P 100,556

The maturity profile of bills payable is presented below.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
One to three months	**P 24,395**	P 51,456
More than three months to one year	**8,283**	8,544
More than one to three years	**34,026**	25,643
More than three years	**15,045**	14,913
	P 81,749	P 100,556

Bills payable bears annual interest rate ranging from 1.20% to 6.25% and from 1.00% to 6.25% in 2017 and 2016, respectively. Certain bills payable to local banks and to BSP (included in Others) are collateralized by certain AFS securities and receivables from customers (see Notes 7.2 and 8).

For the three months ended March 31, 2017 and 2016, interest on bills payable amounted to P583 and P642, respectively, and is included as part of Interest Expense on Bills Payable and Other Liabilities in the consolidated statements of income.

14.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount		Outstanding Balance March 31, 2017 (Unaudited)		Outstanding Balance December 31, 2016 (Audited)	
October 24, 2016	October 24, 2021	2.63%	US$	300	**P**	**15,217**	P	14,986
February 16, 2012	February 16, 2017	4.50%		300		**-**		15,164
					P	**15,217**	P	30,150

The issuance of senior notes in 2016 is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

The net proceeds from the issuance of senior notes in 2012 were intended for general funding and relending purposes.

15. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (Notes) represent direct, unconditional, unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), 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 proceeds from the Notes were used to expand further the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years.

The issuance of the Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes has a principal amount of P10,000 and will mature on March 10, 2025. As of March 31, 2017 and December 31, 2016, the outstanding balance of the Notes including accrued interest amounted to P10,030.

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 P130 both in 2017 and 2016.

16. INSURANCE CONTRACT LIABILITIES

This account consists of:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Legal policy reserves	**P 21,474**	P 19,425
Policy and contract claims payable	**834**	788
Policyholders' dividends	**266**	246
Reserves for policyholders' dividends	**-**	89
	P 22,574	P 20,548

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, lapsed rate, and valuation method as prescribed by the Insurance Commission (IC). The movements in Legal policy reserves for the periods ended March 31, 2017 and 2016, except those brought about by changes in discount rate, is recognized as part of insurance benefits and claims under Other Operating Expenses in the consolidated statements of income (see Note 19). This account shall be measured and accounted for in accordance with the circular on valuation standard for the life insurance reserves. The movement in legal policy reserves brought about by the changes in discount rate is recognized under share in other comprehensive income (loss) of associates and subsidiaries in the statements of changes in equity.

17. OTHER LIABILITIES

Other liabilities consist of the following:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Manager's checks	**P 13,142**	P 12,086
Accounts payable	**10,987**	14,446
Accrued expenses	**10,149**	8,234
Bills purchased – contra	**9,775**	10,486
Lease deposits	**5,853**	5,693
Derivatives with negative fair values	**4,845**	5,475
Outstanding acceptances payable	**3,867**	3,194
Premium deposit fund	**2,625**	2,533
Withholding taxes payable	**839**	1,568
Life insurance deposits	**630**	393
Balance carried forward	**P 62,712**	P 64,108

		March 31, 2017 (Unaudited)		December 31, 2016 (Audited)
Balance brought forward	**P**	**62,712**	P	64,108
Cash letters of credit		**612**		594
Capitalized interest and other charges		**394**		393
Due to BSP and Treasurer of the Philippines		**347**		81
Due to principal		**337**		385
Unearned income		**20**		3
Others		**6,628**		5,521
	P	**71,050**	P	71,085

Others include margin deposits, government withholdings and miscellaneous liabilities.

Interest expense on certain liabilities amounting to P16 and P1 in 2017 and 2016, respectively, are presented as part of Interest Expense on Bills Payable and Other Liabilities 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 IAAP 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 CET1 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 resources 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 with more than 100 branches are required to comply with the minimum capital requirement of P20,000. As of March 31, 2017 and December 31, 2016, the Parent Bank has complied with the above capitalization requirement.

On October 29, 2014, the BSP issued the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles. Banks which are identified as DSIB shall be required to have a higher loss absorbency (HLA). The HLA requirement is aimed at ensuring that DSIBs have a higher share of their statements of financial position funded by instruments which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Banks identified by the BSP as DSIB will be asked to put up additional CET 1 capital ranging from 1.50% to 3.50%, to be implemented on a staggered basis from January 1, 2017 until January 1, 2019.

BDO Unibank Group's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of March 31, 2017 and December 31, 2016 follows:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Tier 1 Capital		
CET 1	**P 275,526**	P 210,641
Additional Tier 1	**5,150**	5,150
	280,676	215,791
Tier 2 Capital	**25,008**	24,762
Total Regulatory Capital	**305,684**	240,553
Deductions	**(22,464)**	(21,937)
Total Qualifying Capital	**P 283,220**	P 218,616

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Total Risk Weighted Assets	**P 1,813,269**	P 1,769,590
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**15.6%**	12.4%
Tier 1 Capital Ratio	**14.2%**	11.0%
Total CET 1 Ratio	**14.0%**	10.7%

18.2 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)	**March 31, 2017 (Unaudited)**	December 31, 2016 (Audited)
Preferred shares – P10 par value				
Authorized – 2,000,000,000 shares				
Issued, fully paid and outstanding	**515,000,000**	515,000,000	**P 5,150**	P 5,150
Common shares – P10 par value				
Authorized – 4,500,000,000 shares				
Issued, fully paid and outstanding:				
Balance at beginning of period	**3,649,967,648**	3,645,375,218	**P 36,500**	P 36,453
Issued during the period	**717,200,851**	4,592,430	**7,172**	47
Balance at end of period	**4,367,168,499**	3,649,967,648	**P 43,672**	P 36,500

18.2.1 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.

On January 7, 2017, the Parent Bank's BOD authorized the conversion of 1,000,000,000 unissued shares of the Parent Bank, consisting of 500,000,000 unissued Series A Preferred Shares and 500,000,000 unissued ordinary Preferred Shares, each with a par value of P10 per share, into 1,000,000,000 common shares with par value of P10 per share. This will provide BDO with the flexibility to issue common shares should the need arise in the future. The transaction is still subject to regulatory approvals.

18.2.2 Common Shares

As of March 31, 2017 and December 31, 2016, there are 12,725 and 12,761 holders of the listed shares, respectively, equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P117.60 per share as of March 31, 2017 and at P112.1 per share as of December 29, 2016 (the last trading day in 2016).

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively. On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per Rights Share. The offer period ran from January 16, 2017 to January 24, 2017. Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted to recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totalling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

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 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. As of March 31, 2017 and December 31, 2016, 140,714 and 288 ADRs valued at US$3,377,136 and US$6,333 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US$24/share and US$21.99/share respectively). The outstanding ADR shares as of March 31, 2017 and December 31, 2016 are equivalent to BDO common shares amounting to 1,407,140 and 2,880, respectively, at the ratio 1:10.

18.3 Surplus Free

On February 24, 2017, 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 P1,310. The dividends were declared to stockholders of record as of March 14, 2017 and paid on March 31, 2017.

On February 22, 2017, the BOD of BDO Leasing 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 P433. The dividends were declared to stockholders of record as of March 10, 2017 and paid on March 29, 2017, of which, total dividends paid to non-controlling interest amounted to P50.

On January 27, 2017, 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 P340. The dividends were paid on February 17, 2017.

On December 3, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,095. The dividends were declared to stockholders of record as of December 19, 2016 and paid on December 29, 2016.

On August 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share or a total of P1,094. The dividends were declared to stockholders of record as of September 15, 2016 and paid on September 26, 2016.

On February 27, 2016, the Parent Bank's BOD approved the declaration of cash dividends on common shares at a price of P0.30 per share in respect of the 2015 earnings. On May 28, 2016, the Parent Bank's BOD declared another cash dividend of P0.30 per share. Total dividends is P0.60 per share or P2,188. The dividends were paid on March 28, 2016 and June 27, 2016, respectively.

On February 24, 2016, the BOD of BDO Leasing 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.

18.4 Surplus Reserves

As of March 31, 2017 and December 31, 2016, the Parent Bank appropriated its Surplus Free amounting to P8 and P28, respectively, representing insurance fund on losses due to fire and robbery. These were approved by the Parent Bank's BOD in its meetings.

Also, included in the 2016 surplus reserve are appropriations made by BDO Securities, BDO Nomura and ASI totaling P8 (nil as of March 31, 2017) 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 profit from trust business amounting to P66 and P59 for the three months ended March 31, 2017 and 2016, respectively, is appropriated to surplus reserves.

18.5 ESOP

For options that were vested, BDO Unibank Group issued new common shares of 797,965 during the three months ended March 31, 2017 and 4,592,430 in 2016 from its authorized capital stock.

Set out below are summaries of number of options vested under the plan.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	3,557,111	833,276
Exercised during the period	(836,198)	(8,064,629)
Vested during the period	-	10,788,464
Balance at end of period	2,720,913	3,557,111

19. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	For the Three Months Ended March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Service charges, fees and commissions	21	P 5,978	P 4,024
Insurance premiums		2,204	-
Trust fees	22	795	758
Foreign exchange gain – net		780	460
Trading gain – net		619	992
Rental		415	386
Dividends		193	77
Recovery on charged-off assets		104	77
Income from assets acquired		85	327
Miscellaneous	11.2	228	379
		P 11,401	P 7,480

Other operating expenses consist of the following:

	Notes	For the Three Months Ended March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Employee benefits	20	P 5,109	P 4,499
Fees and commissions		2,862	1,382
Occupancy	11.5, 21, 27.2	2,088	1,824
Policy reserves, insurance benefits and claims	16	2,010	-
Taxes and licenses		1,994	1,718
Insurance		1,030	913
Advertising		824	666
Balance carried forward		P 15,917	P 11,002

	Note	For the Three Months Ended March 31, 2017 (Unaudited)		March 31, 2016 (Unaudited)
Balance brought forward		**P**	**15,917**	11,002
Security, clerical, messengerial and janitorial			**790**	682
Representation and entertainment			**380**	321
Repairs and maintenance			**336**	278
Travelling			**280**	215
Power, light and water			**233**	215
Supplies			**203**	123
Amortization of intangibles	11.5		**142**	89
Information technology			**118**	107
Litigation on assets acquired			**100**	53
Miscellaneous			**2,362**	1,917
		P	**20,861**	P 15,002

20. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below.

	For the Three Months Ended March 31, 2017 (Unaudited)		March 31, 2016 (Unaudited)	
Salaries and wages	**P**	**3,877**	P	3,338
Bonuses		**106**		91
Retirement – defined benefit plan		**309**		284
Social security costs		**152**		138
Employee stock option plan		**125**		219
Other benefits		**540**		429
	P	**5,109**	P	4,499

21. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's transactions with its related parties for the periods ended March 31, 2017 and 2016 and outstanding balances as of March 31, 2017 and December 31, 2016 are as follows:

Related Party Category	Notes	March 31, 2017 (Unaudited) Amount of Transaction	March 31, 2017 (Unaudited) Outstanding Balance	March 31, 2016 (Unaudited) Amount of Transaction	December 31, 2016 (Audited) Outstanding Balance
DOSRI Loans	21.1				
Stockholders		**P 5,131**	**P 6,958**	P 4,401	P 11,309
Related Parties Under Common Ownership		**2,614**	**10,516**	27,373	10,333
Officers and employees		**377**	**1,593**	351	1,598
Deposit Liabilities	21.2				
Stockholders		**169,496**	**65,612**	90,932	68,009
Related Parties Under Common Ownership		**39,043**	**4,647**	131,352	6,745
Officers and employees		**-**	**-**	4	7
Other Transactions with Associates	21.4 (a)				
Interest Income		**5**	**2**	23	2
Loans and Advances		**-**	**724**	-	730
Service Fees		**-**	**-**	14	-
Related Parties Under Common Ownership	21.4 (b)				
Rent Expense		**651**	**102**	574	103
Key Management Personnel	21.4 (b)				
Compensation		**181**	**-**	171	-
Retirement Plan	21.3	**(6)**	**4,975**	(45)	3,731

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.

21.1 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 March 31, 2017 and December 31, 2016, BDO Unibank Group is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Total DOSRI loans	**P 19,067**	P 23,240
Unsecured DOSRI loans	**1,306**	1,297
Past due DOSRI loans	**1**	-
Non-performing DOSRI loans	**1**	-
% of DOSRI loans to total loan portfolio	**1.24%**	1.57%
% of unsecured DOSRI loans to total DOSRI loans	**6.85%**	5.58%
% 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 0.00% to 12.00% both in 2017 and 2016 (except for credit card receivables which bear a monthly interest rate of 0% to 3.64%).

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 20 years.

Total DOSRI loan releases and collections in 2017 amounted to P8,122 and P12,295, respectively. Total loan releases and collections in 2016, on the other hand, amounted to P32,125 and P25,404, respectively.

BDO Unibank Group assessed that these loans are not significantly impaired in 2017 and 2016.

21.2 Deposits from Related Parties

As of March 31, 2017 and 2016, total deposits made by the related parties to the Parent Bank amounted to P208,539 and P222,288, respectively. Interest expense from deposits amounted to P67 and P247 for the three months ended March 31, 2017 and 2016, respectively.

21.3 Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group for the periods ended March 31, 2017 and 2016, and outstanding balances as of March 31, 2017 and December 31, 2016 as follows:

Related Party Category	March 31, 2017 (Unaudited) Amount of Transaction	March 31, 2017 (Unaudited) Outstanding Balance	March 31, 2016 (Unaudited) Amount of Transaction	December 31, 2016 (Audited) Outstanding Balance
Loans to employees				
BDO Unibank	**P -**	**P 36**	P -	P 40
BDO Leasing	**-**	**1**	-	1
Investment in shares of:				
BDO Unibank	**-**	**18**	-	15
BDO Leasing	**-**	**2**	-	2
Deposit liabilities (including LTNCDs)				
BDO Unibank	**-**	**4,918**	-	3,673
Trading gain				
BDO Unibank	**(7)**	**-**	(46)	-
Interest expense				
BDO Unibank	**1**	**-**	1	-

21.4 Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with associates and other related parties is shown below and in the succeeding page. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(a) Other transactions of the Parent Bank with associates are shown below.

(i) *Loans and Advances to Associates*

As of March 31, 2017 and December 31, 2016, outstanding loans and advances to associates amounted to P724 and P730, 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 P5 and P23 interest income on these loans for the three months ended March 31, 2017 and 2016, respectively. Annual interest rate on these loans ranges from 0.00% to 12.00% for the three months ended March 31, 2017 and 2016. As of March 31, 2017 and December 31, 2016, there were no impairment losses recognized on these loans and advances.

(ii) *Income to the Parent Bank*

BDO Life, a former associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to 0.25% per annum of the managed funds and directed investments based on the average month-end market value of the fund and are deducted quarterly from the fund. Total service fees 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 19). Outstanding balances arising from this as of December 31, 2016 (nil as of March 31, 2017) is included as part of Accounts receivable under Loans and Other Receivables (see Note 8).

(b) Other transactions of the Parent Bank with related parties under common ownership are shown below.

(i) *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 three months ended March 31, 2017 and 2016 is included as part of Occupancy account under Other Operating Expenses (see Note 19).

(ii) The salaries and other compensation given to the BDO Unibank Group's key management are as follows:

	For the Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Salaries and wages	**P 180**	P 142
Social security costs and other benefits	**1**	29
	P 181	P 171

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).

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Investments	**P 997,283**	P 1,021,927
Others	**7,506**	7,186
	P 1,004,789	P 1,029,113

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities which are shown as part of AFS securities (see Note 7.2) with a total face value of P10,503 and P11,249 as of March 31, 2017 and December 31, 2016, respectively, 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. For the periods ended March 31, 2017 and December 31, 2016, the additional reserve for trust functions amounted to P66 and P59, respectively, is included as part of Surplus Reserves account in the statements of changes in equity (see Note 18.4).

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 IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by the Company. The VUL funds are managed by BDO – Trust and Investment Group.

As of March 31, 2017 and December 31, 2016, BDO Life has 12 and 10 VUL funds, respectively. The details of the investment funds, which comprise the assets backing the unit-linked liabilities are presented below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the consolidated financial statements.

	March 31, 2017 (Unaudited)	December 31, 2016 (Audited)
Assets:		
Cash and cash equivalents	**P 86**	P 78
Financial assets at FVTPL	**3,820**	2,916
Other receivables	**18**	6
	P 3,924	P 3,000
Liabilities and Equity:		
Other liabilities	**P 40**	P 27
Net assets attributable to unitholders (see Note 16)	**3,884**	2,973
	P 3,924	P 3,000

24. MERGERS AND ACQUISITIONS

24.1 Subscription of Additional Shares in CBN Grupo

On June 27, 2015, the Parent Bank's BOD authorized the investment by BDO Capital of 3,273,000 shares in BDO RIH (formerly CBN Grupo International Holdings B.V.) for €3. The BSP approved the investment in March 2016. On October 21, 2016, BDO RIH issued the shares to BDO Capital, making BDO Capital the owner of approximately 96% of the outstanding capital stock of BDO RIH. CBN Grupo was renamed BDO Remit International Holdings B.V. and was registered, thereafter, with The Netherlands Chamber of Commerce on October 24, 2016. The total goodwill recognized in 2016 amounted to P32 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Note 11.3).

24.2 Acquisition of Credit Card Portfolio

On June 14, 2016, the Parent Bank signed an agreement with SB Cards to be the exclusive issuer and acquirer of Diners Club credit cards in the Philippines. The acquisition includes SB Cards' existing Diners Club portfolio and its cardholder base. The agreement took effect on September 30, 2016.

The Parent Bank recognized the acquisition-date fair value of the existing credit card receivables and liabilities assumed and compared the net assets acquired with the cash consideration given up resulting in the recognition of Trademark for the excess relating to the use of Diners Club tradename by the Parent Bank for a period of five years. Presented below is the analysis of the transaction.

Credit card receivables	P 586
Liabilities	(18)
Net asset acquired	568
Cash consideration	(733)
Trademark (see Note 11.5)	P 165

24.3 Three Way Merger among BDO Capital, BDO Savings and BDO Elite

On July 22, 2015, the shareholders of BDO Capital, BDO Savings and BDO Elite approved the merger among the three companies with BDO Capital as the surviving entity. BDO Unibank Group previously owned 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. The approval documents were received only on July 21, 2016; thus, the consolidation took effect on July 31, 2016. In the implementation of the merger, all the shares of the capital stock of BDO Elite and BDO Savings issued and outstanding on the effective date of the merger were cancelled. A total of 7,000,399 new shares of stock of BDO Capital were then issued in exchange for the cancelled BDO Elite and BDO Savings shares of stock, as follows:

(a) 1,000,000 shares out of the unissued authorized capital stock; and,
(b) 6,000,399 shares out of the increase in authorized capital stock.

The BDO Elite and BDO Savings shareholders were issued a total of 3,391,113 and 3,609,286 BDO Capital shares, respectively.

24.4 Acquisition of BDO Life

In their respective meetings held on April 24, 2015 and on May 30, 2015, the Parent Bank's BOD and BDO Capital's BOD authorized the termination of the insurance joint venture and bancassurance partnership with the Generali Group.

Pursuant thereto, on June 8, 2015, BDO Unibank Group concluded a Share Purchase Agreement (SPA) with the Generali Group. The SPA provides that upon closing of the transaction, BDO Unibank Group will take full control of BDO Life, a life insurance company, and the Generali Group will take full control of Generali Pilipinas Insurance Company (GPIC), a non-life insurance company that is also owned by Generali Pilipinas Holdings Company, Inc. As of December 31, 2015, BDO Unibank Group owns 40%, and the Generali Group owns 60%, of the issued and outstanding capital stock of BDO Life.

On June 30, 2016, BDO Unibank Group acquired the remaining 60% of the issued and outstanding capital stock of BDO Life from the Generali Group for a cash consideration and other charges amounting to P2,236, making the latter a wholly-owned subsidiary of the former (see Note 11.1). The transaction resulted in the recognition of a gain on fair valuation of previously-held interest and gain on bargain purchase (negative goodwill) amounting to P628 and P1,586, respectively, or a total gain on acquisition of subsidiary amounting to P2,214. This is recorded as part of Miscellaneous under Other Operating Income account in the 2016 BDO Unibank Group's financial statements.

BDO Unibank Group is re-focusing its insurance strategy to align with its thrust to solidify its presence in the broad-based middle income market. By assuming full control of BDO Life Assurance's operations, BDO Unibank Group will be able to adapt more readily to the demands of its target markets.

On the date of acquisition, the equity share in BDO Life was re-measured at fair value, as follows:

Fair value	P	2,549
Book value	(	1,921)
Gain on fair valuation of previously-held interest	P	628

The breakdown of the acquisition-date fair value of the assets and liabilities, including the cost of investments follows:

Cash and cash equivalents	P	851
Trading and investment securities		25,882
Loans and other receivables		563
Bank premises, furniture, fixtures and equipment		54
Other resources		104
Total resources		27,454
Insurance contract liabilities		17,910
Other liabilities		3,173
Total liabilities		21,083
Net assets acquired *(carried forward)*	P	6,371

Net assets acquired *(brought forward)*	P	6,371
Fair value of the investment for the previously held interest in BDO Life	(	2,549)
Consideration transferred (for the 60% ownership interest)	(	2,236)
Gain on bargain purchase	P	1,586

Pre-acquisition income arising from the step-up acquisition amounted to P391. Subsequently, GPHCI was renamed to BDO Life.

24.5 Investment Agreement with Nomura

On June 24, 2015, the BOD of BDO Nomura (formerly PCIB Securities, Inc. or PCIB Securities) authorized PCIB Securities to enter in an Investment Agreement (the Agreement) with the Parent Bank and Nomura Holdings, Inc. (Nomura). Pursuant to the Agreement, PCIB Securities shall execute a subscription agreement with Nomura whereby PCIB Securities shall issue 336,274 common shares at a subscription price of P370.34 per share. Such that Nomura shall own 49.0% of the total issued and outstanding capital stock of PCIB Securities. Relative to the Agreement, PCIB Securities shall carry out retail online securities trading, institutional and retail cross-border trading and other securities business.

On January 27, 2016, PCIB Securities executed the subscription agreement with Nomura Asia Investment (Singapore) Pte. Ltd. (a wholly owned subsidiary of Nomura), thereby issuing 336,274 new common shares of PCIB Securities at P370.34 per share, resulting in 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.

24.6 Joint Venture Investment Agreement with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corporation (SJC) and JACCS Co. Ltd. (JACCS)

On January 28, 2016, BDO Leasing entered into a joint venture investment agreement with MMPC, SJC and JACCS to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles in the Philippines. The joint venture, to be named MAFSC, is seen harnessing the complementary strengths of the partners of the joint venture to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and a growing population. Upon the incorporation of MAFSC on May 31, 2016, BDO Leasing contributed P300 for 3,000,000 common shares, thereby owning 40% (34.97% effectively owned by the Parent Bank) of the company while MMPC, SJC and JACCS hold the remaining 60% stake (see Note 11.1).

24.7 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 (see Note 11.1).

As of December 31, 2016, the Parent Bank acquired additional 324,012 ONB common shares from its total issued and outstanding capital stock for cash of P9. These additional purchases of ONB common shares by the Parent Bank increased its total shareholdings in ONB to 99.76%. Total additional goodwill recognized in 2016 amounted to P4 (see Note 11.1).

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.

On June 17, 2016, the Parent Bank entered into a Sale and Purchase Agreement with TPG Growth III SF PTE. Ltd (TPG) whereby the latter shall purchase 98,949,533 common shares of ONB (constituting 40%) held by the Parent Bank. The transaction has been approved by the BSP on December 8, 2016 and is still subject to the completion of certain closing conditions.

25. TAXES

The major components of tax expense reported in the consolidated statements of income follow:

	For the Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Reported in profit or loss:		
Current tax expense	**P 1,674**	P 1,576
Deferred tax expense relating to origination and reversal of temporary differences	**48**	62
	P 1,722	P 1,638
Reported in other comprehensive income:		
Movement in fair value of AFS securities	**P 5**	P 81
Movement in revaluation increment	**1**	-
	P 6	P 81

The components of the net deferred tax assets (see Note 11) follow:

		March 31, 2017 (Unaudited)		December 31, 2016 (Audited)
Deferred tax assets:				
Allowance for impairment	**P**	**6,269**	P	6,271
Unamortized past service cost		**1,249**		1,338
Lease income differential – PAS 17		**121**		121
Net operating loss carryover		**1**		1
Others		**101**		34
		7,741		7,765
Deferred tax liabilities:				
Retirement asset		**649**		607
Revaluation increment		**432**		432
Changes in fair values of AFS securities		**65**		60
Lease income differential – PAS 17		**54**		54
Capitalized interest		**52**		53
Others		**184**		225
		1,436		1,431
Deferred tax assets – net	**P**	**6,305**	P	6,334

26. EARNINGS PER SHARE

26.1 Basic Earnings Per Share

Basic earnings per share attributable to shareholders of BDO Unibank Group are computed as follows:

	For the Three Months Ended			
		March 31, 2017 (Unaudited)		March 31, 2016 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	**P**	**5,831**	P	5,478
Less dividends in arrears on preferred shares		**340**		339
Net profit available to common shares		**5,491**		5,139
Divided by the weighted average number of outstanding common shares (in millions)		**4,181**		3,803
Basic earnings per share	**P**	**1.31**	P	1.35

26.2 Diluted Earnings Per Share

Diluted earnings per share attributable to the shareholders of BDO Unibank Group are computed as follows:

	For the Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Net profit attributable to shareholders of the Parent Bank	**P 5,491**	P 5,139
Divided by the weighted average number of outstanding common shares (in millions):		
Outstanding common shares	**4,181**	3,803
Potential common shares from assumed conversion of convertible preferred shares	*****	*
Potential common shares from assumed conversion of stock option plan	******	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**4,181**	3,803
Diluted earnings per share	**P 1.31**	P 1.35

* *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 March 31, 2017, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's consolidated financial position.

27.1.1 PEACe Bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly 10 years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT. On October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the Bureau of Treasury (BTr) and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling. On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds. On October 18, 2011, the Supreme Court unanimously resolved, and issued a temporary restraining order which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount of P4,966, representing the 20% FWT on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On October 19, 2016, the Respondents filed Motions where they respectfully prayed that the Honorable Court grant them leave to file the Motion for Partial Reconsideration and admit the Motion for Partial Reconsideration. The Respondents also prayed that the Resolution dated August 16, 2016 be partially reconsidered and for judgment to be rendered stating that (i) 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, (ii) the 6% interest on the withheld amount of P4,966 be deleted or in the alternative, and only when respondents are held liable for interest, computation thereof shall be reckoned from the date of finality of the Decision dated January 13, 2015 at the prevailing market rate of comparable short term government debt securities at the time of payment.

On November 22, 2016, the Supreme Court denied, for lack of merit, the Respondents Motion for Leave to File Motion for Partial Reconsideration, as well as the Motion to Admit Motion for Partial Reconsideration, considering that a second motion for reconsideration is a prohibited pleading. The Supreme Court stated that no further pleadings or motions will be entertained and ordered the entry of judgment. As of March 31, 2017, pending the release and payment of the 20% FWT plus the 6% annual legal interest, the Parent Bank presents the 20% FWT amounting to P690 as part of Accounts receivable account under Loans and Other Receivables in the consolidated statements of financial position (see Note 8).

Thereafter, on April 11, 2017, the Parent Bank entered into a Settlement Agreement with the Republic of the Philippines, (acting through the BTr) to settle all claims and put closure to the PEACe Bonds case. Under the terms of the Settlement Agreement:

- The BTr paid the 20% final withholding tax withheld on the PEACe bonds amounting to P690, plus interest of 4% per annum from October 19, 2011 to April 10, 2017 amounting to P151; and,

- The payment was made in the form of 3-Year Retail Treasury Bonds, with interest of 4.25 % per annum.

The 3-Year Retail Treasury Bonds settlement was recognized by the Parent Bank as part of financial assets at FVTPL subsequent to March 31, 2017.

27.1.2 Applicability of Revenue Regulation 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, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. 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 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 March 31, 2017.

27.1.3 First e-bank

In 2002, First e-Bank ("FeB") experienced liquidity problems prompting PDIC to invite several banks to propose a solution for FeB's bailout. PDIC entered into contract with BDO Unibank, Inc. where in consideration of the assumption by BDO Unibank of FeB's liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB's assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO Trust and Investments Group ("BDO-TIG") in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO-TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon.

Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, BDO filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

The case remains pending as of March 31, 2017.

27.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of March 31, 2017, 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 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 Expense account in the interim consolidated statements of income, amounted to P772 and P690 for the three months ended March 31, 2017 and 2016, respectively (see Note 19).

The estimated minimum future annual rentals follow:

		March 31, 2017 (Unaudited)		December 31, 2016 (Audited)
Within one year	**P**	**1,995**	P	2,528
More than one year but not more than five years		**11,997**		12,532
More than five years		**4,626**		4,788
	P	**18,618**	P	19,848

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 March 31, 2017, 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		March 31, 2017 (Unaudited)		December 31, 2016 (Audited)
Trust department accounts	22	**P**	**1,004,789**	P	1,029,113
Committed credit lines			**256,430**		221,579
Forward exchange sold			**115,972**		89,028
Forward exchange bought			**114,034**		80,419
Unused commercial letters of credit			**53,952**		48,108
Spot exchange sold			**22,083**		13,224
Interest rate swap receivable			**18,861**		19,699
Interest rate swap payable			**18,861**		19,699
Republic of the Philippines warrants			**15,021**		15,021
Spot exchange bought			**11,029**		5,182
Outstanding guarantees issued			**9,356**		33,891
Bills for collection			**5,035**		5,090
Late deposits/payments received			**3,033**		2,584
Export letters of credit confirmed			**1,719**		1,552
Other contingent accounts			**2,089**		2,055

28. EVENT AFTER THE END OF THE REPORTING PERIOD

On May 26, 2017, the Parent Bank's BOD approved the declaration of regular cash dividends on common shares in the amount of P0.30 per share for the second quarter of 2017, payable on June 30, 2017 to all stockholders of record as of June 15, 2017.

COVER SHEET

					3	4	0	0	1

S.E.C. Registration Number

B D O U N I B A N K , I N C .

(COMPANY'S FULL NAME)

B D O C O R P O R A T E C E N T E R , 7 8 9 9

M A K A T I A V E N U E , M A K A T I C I T Y

(BUSINESS ADDRESS: NO. STREET CITY/TOWN/PROVINCE)

RHODA P. LAZARO
Contact Person

878-4520/840-7000 loc 4520
Company Telephone Number

0 6 — Month
3 0 — Day

S E C 1 7 - Q
Form Type

Every last Friday of the month of May
Annual Meeting

Secondary License type, if applicable

C F D
Dept. Requiring this Doc.

Amended Articles Number/Section

12,689
Total No.of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be Accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Stamps

Remarks: Pls. Use black ink of scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND BRC RULES 17 (2) (b) THEREUNDER

1. For the quarter ended **June 30, 2017.**

2. Commission identification number **34001** 3. BIR Tax Identification No. **000-708-174-000**

BDO UNIBANK, INC.

4. Exact name of issuer as specified in its charter

Makati City, Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code (For SEC Use Only)

BDO Corporate Center, 7899 Makati Avenue, Makati City

7. Address of issuer's principal office Postal Code

856-7434/840-7000 LOC 4575

8. Issuer's Telephone number, including area code

NA

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Section 8 and 12 of the Code of Section 4 and 8 of the RSA

Title of each class	Number of shares of common stock outstanding	Amount of Debt Outstanding
Common stock	**4,367,546,364**	

11. Are any or all of the securities listed on a stock exchange?
    Yes **[X]** No. [ ]
    If yes, state the name of such stock exchange and the class/es of securities listed therein: Philippine Stock Exchange -Common Stock

12. Indicate by check mark whether the registrant:
    a. has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA 11 (a)-1 thereunder, and Section 26 and 141 of the Corporations Code of the Philippines, during the preceding twelve (12) months or such shorter period the registrant was required to file such reports.

    Yes **[X]** No. [ ]
    b. has been subject to such filing requirements for the last ninety (90) days
    Yes **[X]** No. [ ]

SEC FORM 17-Q

I hereby certify that all the information set forth in the above report are true and correct of my own knowledge.

LUCY CO DY (EVP Comptroller)
Authorized Signatory
(PRINTED NAME & DESIGNATION)

REPUBLIC OF THE PHILIPPINES }
CITY OF MAKATI } S.S.

SUBSCRIBED AND SWORN TO before me this JUL 31 2017 day of July, 2017, the above affiant exhibiting to me his/her described Competent Evidence of Identity ("CEI"):

Name	CEI	Date & Place Issued
Lucy Co Dy	SSS No. – 03-4074342-5 CTC – 25058770	Quezon City 02.14.2017/Makati City

Notary Public

Atty. JOEL S. ROMERO
Appointment No. M-290
Notary Public until 31 December 2018
14/F North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Roll No. 47510
IBP No. 1055697, 01/03/2017, PPLM
PTR No. 5908978, 01/03/2017, Makati City
MCLE Compliance No. V-0013186, 12/08/2015

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Series of 2017

* To be signed by any of the following officers pursuant to a Board Resolution filed with the Commission

1. Chief Operating Officer
2. Chief Financial Officer
3. Comptroller or Treasurer

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer..	**BDO UNIBANK, INC.**
Signature and Title..	**LUCY CO DY** EVP/COMPTROLLER
Date..	**July 28, 2017**
Principal Financial /Accounting Officer/Comptroller..	**LUCY CO DY**
Signature and Title..	EVP/COMPTROLLER
Date..	**July 28, 2017**

BDO UNIBANK, INC. & SUBSIDIARIES
BDO Corporate Center, 7899 Makati Avenue, Makati City

CONDENSED STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions of Pesos)

		As of June 30, 2017		Audited As of December 31, 2016
RESOURCES				
CASH AND OTHER CASH ITEMS	P	31,633	P	40,909
DUE FROM BANGKO SENTRAL NG PILIPINAS		338,304		318,002
DUE FROM OTHER BANKS		33,770		41,794
INVESTMENT SECURITIES				
At Fair Value Through Profit or Loss		17,195		14,024
Available-for-Sale – net		119,422		108,132
Held-to-Maturity – net		191,148		146,886
LOANS AND OTHER RECEIVABLES–net		1,657,551		1,573,924
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net		27,189		26,912
INVESTMENT PROPERTIES		15,491		15,188
EQUITY INVESTMENTS – net		4,708		4,410
DEFERRED TAX ASSETS		6,290		6,334
OTHER RESOURCES - net		28,038		28,443
TOTAL RESOURCES	P	2,470,739	P	2,324,958
LIABILITIES AND CAPITAL FUNDS				
DEPOSIT LIABILITIES	P		P	
Demand		125,988		114,284
Savings		1,317,905		1,267,983
Time		535,857		522,937
Total Deposit Liabilities		1,979,750		1,905,204
BILLS PAYABLE		96,378		100,556
SUBORDINATED NOTES PAYABLE		10,030		10,030
INSURANCE CONTRACT LIABILITIES		24,159		20,548
OTHER LIABILITIES		71,195		71,085
Total Liabilities		2,181,512		2,107,423
EQUITY				
Attributable to Shareholders of the Parent Company		288,529		216,792
Minority Interest		698		743
Total Equity		289,227		217,535
TOTAL LIABILITIES AND EQUITY	P	2,470,739	P	2,324,958
CONTINGENT				
Trust department accounts	P	1,020,879	P	1,029,113
Unused commercial letters of credit		41,928		48,108
Outstanding guarantees issued		10,272		33,891
Export L/Cs Confirmed		1,774		1,552
Bills for collection		5,393		5,090
Late deposits/payment received		2,897		2,584
Spot Exchange Bought		6,163		5,182
Spot Exchange Sold		14,492		13,224
Forward Exchange Bought		118,438		80,419
Forward Exchange Sold		129,392		89,028
Interest Rate Futures Sold		101		0
Interest Rate Swap Receivable		18,858		19,699
Interest Rate Swap Payable		18,858		19,699
Other Contingent Accounts		287,282		238,655
TOTAL CONTINGENT ACCOUNTS	P	1,676,727	P	1,586,244

Note: This Financial Statement is in accordance with Philippine Financial Reporting Standards(PFRS)

BDO UNIBANK, INC. & SUBSIDIARIES
BDO Corporate Center, 7899 Makati Avenue, Makati City

CONDENSED STATEMENTS OF INCOME
(Amounts in Millions of Pesos Except Per Share Data)

	For the six-month Period ended June 30, 2017	For the six-month Period ended June 30, 2016	For the Quarter ending June 30, 2017	For the Quarter ending June 30, 2016
INTEREST INCOME ON				
Loans and Receivables	P 41,324	P 35,569	P 21,458	P 17,948
Investment Securities	4,607	4,026	2,408	2,186
Due from Other Banks	919	339	386	205
Others	167	12	161	7
Total Interest Income	47,017	39,946	24,413	20,346
INTEREST EXPENSE ON				
Deposit liabilities	6,963	6,742	3,531	3,387
Bills Payable and Others	1,438	1,468	709	695
Total Interest Expense	8,401	8,210	4,240	4,082
NET INTEREST INCOME	38,616	31,736	20,173	16,264
IMPAIRMENT LOSSES	2,906	1,742	1,483	915
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	35,710	29,994	18,690	15,349
OTHER OPERATING INCOME				
Service Charges, Fees and Commissions	12,307	9,106	6,329	5,088
Trading Gain – net	785	2,303	166	1,311
Trust Fees	1,594	1,537	799	779
Foreign Exchange Gain/(Loss) – net	1,768	943	988	483
Insurance Premuims	4,565	3,918	2,361	3,918
Miscellaneous – net	2,197	4,201	1,172	2,949
Total Other Operating Income	23,216	22,008	11,815	14,528
OTHER OPERATING EXPENSES				
Employee Benefits	12,322	10,731	7,213	6,232
Occupancy	4,215	3,724	2,127	1,900
Taxes and licenses	3,942	3,570	1,948	1,852
Security, Clerical, Messengerial and Janitorial	1,594	1,423	804	741
Insurance	2,033	1,841	1,003	928
Advertising	1,720	1,536	896	870
Litigation/Assets Acquired	206	154	106	101
Policy Reserves	3,083	2,309	1,416	2,309
Insurance Benefits and Claims	815	703	472	703
Miscellaneous	11,969	8,961	5,053	4,314
Total Other Operating Expenses	41,899	34,952	21,038	19,950
NET INCOME BEORE PRE-ACQUISITION	17,027	17,050	9,467	9,927
Pre-acquisition Income		(391)	0	(391)
NET INCOME BEORE INCOME TAX	17,027	16,659	9,467	9,536
TAX EXPENSE (INCOME)	3,746	3,411	2,024	1,773
NET INCOME AFTER TAX	P 13,281	P 13,248	P 7,443	P 7,763
ATTRIBUTABLE TO:				
Equity holders of the parent	P 13,271	P 13,231	P 7,440	P 7,753
Minority Interest	10	17	3	10
	P 13,281	P 13,248	P 7,443	P 7,763
AVERAGE COMMON STOCK	4,274	3,803	4,274	3,803
INCOME PER SHARE (See annex A)				
Basic	3.03	3.39	1.74	2.04
Diluted	3.03	3.39	1.73	2.03

Note: This Financial Statement is in accordance with Philippine Financial Reporting Standards(PFRS)

BDO UNIBANK, INC. & SUBSIDIARIES
BDO Corporate Center, 7899 Makati Avenue, Makati City

STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions of Pesos)

	For the six-month period ending June 30, 2017	For the six-month period ending June 30, 2016
NET PROFIT	13,281	13,248
OTHER COMPREHENSIVE INCOME(LOSS)		
Net unrealized fair value gains(losses)		
on available-for-sale securities	1,763	449
Translation adjustment related to foreign operations	(8)	107
Other Comprehensive Income, net of tax	1,755	556
Items that will not be reclassified to profit or loss:		
Reversal of revaluation increment		
Actuarial gains (losses) on remeasurement of retirement		
benefit asset, net of tax	(218)	0
	(218)	0
Share in other comprehensive income (loss) of subsidiaries and associates		
accounted for under equity method	(4)	88
Total Other Comprehensive Income, Net of Tax	1,533	644
TOTAL COMPREHENSIVE INCOME(LOSS)	14,814	13,892
Attributable To:		
Shareholders of the Parent Bank	14,809	13,880
Non-controlling Interest	5	12
	14,814	13,892

Note: This Financial Statement is in accordance with Philippine Financial Reporting Standards(PFRS)

BDO UNIBANK, INC. & SUBSIDIARIES
BDO Corporate Center, 7899 Makati Avenue, Makati City

STATEMENTS OF CHANGES IN EQUITY
COMPARATIVE PERIODS ENDED JUNE 30, 2017 AND 2016
(Amounts in Millions of Pesos)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gain(Losses) on Available-for-sale Securities	Accumulated Actuarial Gains/(Losses)	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income(Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-Controlling Interest	Total Equity
Balance at January, 2017	P 36,500	P 5,150	P 70,127	P 2,972	P 12	P 109,216	(P 3,919)	(P 4,259)	P 1,008	(P 13)	(P 2)	P 216,792	P 743	P 217,535
Transactions with owners														
Issuance of primary shares	11		50									61		61
Stock rights offer	7,164		52,663									59,827		59,827
Cash Dividend						(2,960)						(2,960)	(50)	(3,010)
Total transactions with owners	7,175	0	52,713	0	0	(2,960)	0	0	0	0	0	56,928	(50)	56,878
Total comprehensive income						13,271	1,767	(218)		(7)	(4)	14,809	5	14,814
Transfer to/(from) Surplus Free														
Trust reserves				66		(66)						0		0
Self Insurance				7		(7)						0		0
Additional appropriation				5		(5)						0		0
	0	0	0	78	0	(78)	0	0	0	0	0	0	0	0
Balance at June 30, 2017	P 43,675	P 5,150	P 122,840	P 3,050	P 12	P 119,449	(P 2,152)	(P 4,477)	P 1,008	(P 20)	(P 6)	P 288,529	P 698	P 289,227
Balance at January, 2016	P 36,453	P 5,150	P 69,936	P 2,696	P 12	P 88,118	(P 622)	(P 3,614)	P 1,008	(P 60)	(P 87)	P 198,990	P 623	P 199,613
Transactions with owners														
Issuance of primary shares	19		75									94		94
Cash Dividends						(2,527)						(2,527)	(50)	(2,577)
Total transactions with owners	19	0	75	0	0	(2,527)	0	0	0	0	0	(2,433)	(50)	(2,483)
Total comprehensive income						13,231	443			118	88	13,880	12	13,892
Transfer to/(from) Surplus Free														
Trust reserve				59		(59)						0		0
Self Insurance				14		(14)						0		0
	0	0	0	73	0	(73)	0	0	0	0	0	0	0	0
Other Adjustments														
Net effect of percentage of ownership over subsidiaries												0	114	114
	0	0	0	0	0	0	0	0	0	0	0	0	114	114
Balance at June 30, 2016	P 36,472	P 5,150	P 70,011	P 2,769	P 12	P 98,749	(P 179)	(P 3,614)	P 1,008	P 58	P 1	P 210,437	P 699	P 211,136

BDO UNIBANK, INC. & SUBSIDIARIES
CASH FLOW STATEMENTS
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(Amounts in Millions of Pesos)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	17,027	16,659
Adjustments for:		
Interest income	(47,017)	(39,946)
Interest received	45,768	39,819
Interest expense	8,401	8,210
Interest paid	(8,704)	(8,335)
Impairment losses	2,906	1,742
Depreciation and amortization	2,679	2,289
Gain on acquisition of a subsidiary	0	(2,141)
Share in (profit)loss of associates	(309)	(257)
Fair value loss (gain)	(155)	92
Operating profit before changes in operating resources and liabilities	20,596	18,132
Decrease (increase) in financial assets at fair value through profit or loss	(3,047)	(163)
Decrease (increase) in loans and other receivables	(69,578)	(85,094)
Decrease (increase) in investment properties	(584)	(636)
Decrease (increase) in other resources	(3,358)	(1,601)
Increase (decrease) in deposit liabilities	74,644	107,815
Increase (decrease) in insurance contract liabilities	3,611	0
Increase (decrease) in other liabilities	3,335	1,854
Cash generated from (used in) operations	25,619	40,307
Cash paid for income tax	(3,873)	(3,427)
Net Cash From (Used in) Operating Activities	21,746	36,880
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of premises, furniture, fixture and equipment	(2,259)	(2,463)
Proceeds from disposals of premises, furniture, fixture and equipment	43	25
Acquisition of held-to-maturity investments	(65,736)	(39,352)
Maturities of held-to-maturity investments	21,973	14,225
Proceeds from disposal of available-for-sale securities	27,598	55,915
Acquisition of available-for-sale securities	(37,073)	(45,685)
Payment for acquisition of a new subsidiary, net of cash acquired	0	(1,392)
Net Cash From (Used in) Investing Activities	(55,454)	(18,727)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	61	94
Net proceeds from issuance of Stock Rights	59,827	0
Net proceeds from(payment of) bills payable	10,924	(971)
Net proceeds from(payment of) issuance of senior notes payable	(14,931)	(14,107)
Dividends paid	(3,010)	(2,577)
Net Cash From (Used in) Financing Activities	52,871	(17,561)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,163	592
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	40,909	42,729
Due from Bangko Sentral ng Pilipinas	318,002	271,808
Due from other banks	41,794	24,837
SPURRA	14,302	69,490
FCNC	3,338	3,244
	418,345	412,108
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	31,633	30,902
Due from Bangko Sentral ng Pilipinas	338,304	318,003
Due from other banks	33,770	40,659
SPURRA	30,530	20,434
FCNC	3,271	2,702
	437,508	412,700

BDO UNIBANK, INC. & SUBSIDIARIES
BDO Corporate Center, 7899 Makati Avenue, Makati City

AGING OF LOANS AND ACCOUNTS RECEIVABLE
As of June 30, 2017
(Amounts in Millions of Pesos)

TYPE OF ACCOUNTS		Current		90 DAYS OR LESS		91 - 180 DAYS		OVER 181 DAYS		TOTAL
A. INTERBANK TERM LOANS RECEIVABLES	P	45,124	P	0	P	0	P	0	P	45,124
B. LOANS AND RECEIVABLES	P	1,614,679	P	5,240	P	3,980	P	14,936	P	1,638,835
Loans & Discounts		1,406,164		3,884		3,302		10,656		1,424,006
Agri - Agra Loans		60,483		144		21		119		60,767
Bills Purchased		10,141		0		0		26		10,167
Customers Liability on Draft under LC/TR		41,656		0		0		593		42,249
Customers Liability for this Bank's Acceptances		2,991		0		0		0		2,991
Credit Card Receivables		49,111		1,115		462		1,004		51,692
Restructured Loans		97		7		67		1,133		1,304
Other Loans & Receivables		8,949		90		128		1,235		10,402
Reverse Repurchase Agreement		30,530		0		0		0		30,530
Unquoted Debt Securities Classified as Loans		4,557		0		0		170		4,727
C. ACCOUNTS RECEIVABLE	P	2,833	P	897	P	299	P	1,165	P	5,194
TOTAL	P	1,662,636	P	6,137	P	4,279	P	16,101	P	1,689,153

BDO UNIBANK, INC. & SUBSIDIARIES
7899, BDO Corporate Center, Makati Avenue, Makati City

COMPUTATION OF WEIGHTED NUMBER OF COMMON SHARES
(Amounts in Millions of Pesos Except Per Share Data)

	2017		2016	
NO. OF SHARES – COMMON As of June	Outstanding Balance of Common Shares	Average Number of Common Shares	Outstanding Balance of Common Shares	Average Number of Common Shares
January	3,808	655	3,803	648
February	4,367	676	3,803	606
March	4,367	748	3,803	648
April	4,367	724	3,803	627
May	4,367	748	3,803	648
June	4,368	724	3,805	627
Weighted Average		4,274		3,803
Basic Earnings per share				
Net profit attributable to shareholders of the Parent Bank		13,271		13,231
Less: Dividends on preferred shares		340		339
Net profit available to common shares		12,931		12,892
Divided by the weighted average number of outstanding common shares		4,274		3,803
Basic Earnings per share		**3.03**		**3.39**
Diluted Earnings Per Share				
Net profit attributable to shareholders of the Parent Bank		12,931		12,892
Divided by the weighted average number of outstanding common shares:				
Weighted Average number of common shares		4,274		3,803
Potential common shares from assumed conversion of preferred shares		0		0
Potential common shares from assumed conversion of stock option plan		0		0
Total weighted average number of common shares after assumed conversion of convertible preferred shares		4,274		3,803
Diluted Earnings Per Share		**3.03**		**3.39**

Note:

**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 2017 and 2016.*

CHECKLIST OF REQUIRED DISCLOSURES
BANCO DE ORO UNIBANK, INC.
For the six months ended: June 30, 2017

FINANCIAL INFORMATION

6. Disclosure that the issuer's interim financial report is in compliance with generally accepted accounting principles.

   The Bank's interim financial statements are in compliance with Philippine Financial Reporting Standards.

   With the issuance of BSP Circular No. 912 dated May 27, 2016 citing the Mandatory Implementation Date and Closure of Early Adoption Window of Philippine Financial Reporting Standards 9 Financial Instrument, the Bank no longer conducted an impact evaluation study on the early adoption of PFRS 9 on the second quarter of 2016. The Bank will adopt the full provisions of PFRS 9 Financial Instruments on its mandatory effectivity date of January 1, 2018.

7.a A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.

   Effective January 1, 2016, PAS 27 (Amendments), Separate Financial Statements - Equity Method in Separate Financial Statements, provides a third option which permits an entity to account for its investment in subsidiaries, associates and joint ventures under equity method in its separate financial statements in addition to the current option of accounting those investments at cost or at fair value in accordance with PAS 39. Accordingly, the Parent Bank changed its accounting policy in accounting for its investments in subsidiaries and associates from cost method to equity method in its separate financial statements in accordance with PAS 27. This is also in compliance with the mandatory requirement of BSP, through its Circular No. 915, Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions, for banks and non-bank financial institutions to measure its equity investments using equity method in its separate financial statements.

   The change in its accounting policy required the Parent Bank to restate its comparative financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the retrospective effects of the use of equity method in measuring its investments in subsidiaries and associates. The adjustments made were significant to the Parent Bank's financial statements; therefore, P&A identified the effects of the amendments to PAS 27 and compliance with BSP Circular No. 915, as a significant matter to their audit. The disclosures of the Parent Bank on the retrospective effects of the use of equity method in measuring its investments in subsidiaries and associates, and the carrying amounts of the investments in subsidiaries and associates are included in Notes 2 and 13 of the 2016 audited financial statements, respectively.

7.b Explanatory comments about the seasonality or cyclicality of interim operations.

   Remarks: There is no seasonality or cyclicality in the Bank's operations.

7.c The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidents.

On January 31, 2017 the Bank, through a Stock Rights Offering (SRO), issued P60.0 billion worth of new common shares, to support medium-term growth objectives.

7.d The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

Remarks: NONE

7.e Issuances, repurchases, and repayments of debt and equity securities.

In January 2017, the Bank completed its SRO raising P60.0 billion.

In February 2017, the Bank repaid upon maturity its $300 million Senior Notes issued in 2012.

7.f Dividends paid (aggregate or per share) separately for ordinary shares and other shares

On January 27, 2017, the Board of Directors of BDO approved the declaration of annual cash dividends on preferred shares at the rate of 6.5% per annum for a total dividend amount of P340 million. The dividends were paid on January 31, 2017.

On February 24, 2017, the Board of Directors approved the declaration of cash dividends for the first quarter of 2017, in the amount of P0.30 per common share for a total of P1.3 billion. The dividends were paid on March 31, 2017.

On May 26, 2017, the Board of Directors approved the declaration of cash dividends for the second quarter of 2017, in the amount of P0.30 per common share. The dividends were paid on June 30, 2017.

7.g Segment revenue and segment result for business segments or geographical segments whichever is the issuer's primary basis of segment reporting. (This shall be provided only if the issuer is required to disclose segment information in its annual financial statements).

The Bank's comparative revenues and expenses by business segment are included as an attachment to this report.

7.h Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

Remarks: NONE

7.i The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations.

Remarks: NONE

7.j Changes in contingent liabilities or contingent assets from December 31,2016.

- Total Contingent Accounts grew 6% to P1.7 trillion from the following:
  - Export L/Cs Confirmed went up 14% on higher volume of trade transactions.
  - Bills for Collection and Late Deposits and Payments Received rose 6% and 12% to P5.4 billion and P2.9 billion, respectively, as of the first half of the year.
  - Increased treasury activities generated the following:
    - Spot Exchange Bought and Sold as well as Forward Exchange Bought and Sold climbed 19%, 10%, 47% and 45% to P6.2 billion, P14.5 billion, P118.4 billion and P129.4 billion, respectively.
    - Interest Rate Futures Sold was at P101 million for the first half of the year.
  - Other Contingent Accounts expanded 20% from higher committed credit lines.
  - Unused L/Cs and Outstanding Guarantees Issued fell 13% and 70% to P41.9 billion and P10.3 billion as of the cut-off date.

MANAGEMENT'S DISCUSSION & ANALYSIS

I. Balance Sheet – June 2017 vs. December 2016

- Cash and Other Cash Items dropped 23% to P31.6 billion, from a high year-end 2016 level coming from deposits generated during the holiday season.
- Due from BSP increased 6% to P338.3 billion owing to additional reserve requirements on higher deposit levels.
- Due from Other Banks went down 19% to P33.8 billion from lower placements and working balances with correspondent banks.
- Investment Securities rose 22% to P327.8 billion as Financial Assets at Fair Value Through Profit and Loss (FVTPL), Available for Sale Securities (AFS) and Held-to-Maturity (HTM) Securities increased 23%, 10% and 30%, respectively, from increases in both Treasury and BDO Life's portfolios.
- Net Loans and Other Receivables went up 5% to P1.7 trillion on account of an 8% growth in Customer Loans and a 113% expansion in Securities Purchased Under Reverse Repurchase Agreements (SPURRA) from year end 2016. This was offset by reductions in Interbank Loans, Unquoted Debt Securities Classified as Loans (UDSCL) and Other Receivables.
- Equity Investments grew 7% to P4.7 billion due to continued earnings of associates.
- Total Deposits rose 4% to P2.0 trillion as Demand, Savings and Time deposits grew 10%, 4% and 2% respectively.
- Insurance Contract Liabilities jumped 18% to P24.2 billion owing to growing business volumes of BDO Life.
- Total Equity climbed 33% to P289.2 billion due to the SRO in January 2017 and the first half profits.

II. Balance Sheet – June 2017 vs. June 2016

- Total Resources grew 15% year-on-year to P2.5 trillion primarily funded by low cost deposits and the proceeds from the SRO.

- Due from BSP went up 6% following increased reserve requirements on higher deposit levels.
- Due from Other Banks decreased 17% owing to lower balances with correspondent banks.
- Investment Securities expanded 23% on higher levels of FVTPL, AFS and HTM Securities, on increases from both Treasury and BDO Life's portfolios.
- Net Loans and Other Receivables climbed 17% mainly from a hike in Customer Loans. SPURRA and UDSCL likewise, increased by 49% and 482%, while Interbank Loans and Other Receivables dropped year-on-year by 7% and 10%, respectively.
- Bank Premises increased 5% to P27.2 billion due to branch expansion and enhancements in the Bank's distribution network.
- Other Resources declined 6% to P28.0 on account of a reduction in miscellaneous assets.
- Deposit Liabilities expanded 12% driven by a 23% and 17% increases in Demand and Savings Deposits, respectively.
- Bills Payable climbed 17% to P96.4 billion mainly from higher levels of deposit substitutes.
- Insurance Contract Liabilities surged 35% year-on-year on account of increased business volumes of BDO Life.
- Other Liabilities hiked 14% to P71.2 billion owing mainly to higher levels of accounts payable, miscellaneous liabilities as well as the Premium Deposit Fund of BDO Life.
- Total Equity went up 37% from continued profitability as well as the SRO proceeds in January 2017.

III. Income Statement – June 2017 vs. June 2016

- The Bank registered a P13.3 billion Net Income attributable to Equity holders of the Parent Company. Taking into consideration extraordinary items including the net gain from the consolidation of BDO Life in June 2016, this represents a 16% year-on year improvement from the first half 2016.
- Net Interest Income surged 22% to P38.6 billion owing to an expansion in earning assets as well as an improvement in net interest margins.
- The Bank maintained its conservative provisioning approach setting aside P2.9 billion as Provision for Impairment Losses, higher than the P1.7 billion in the first half of last year.
- Other income went up 5% to P23.2 billion from the following:
  - Service Charges and Fees hiked 35% to P12.3 billion from recurring fee income from the Bank's major business lines.
  - Trading Gain slid to P785 million on account of less favorable market conditions.
  - Foreign Exchange (FX) Gain surged 87% to P1.8 billion as the Bank benefited from continuing customer flows and market opportunities.
  - Insurance Premiums rose 17% to P4.6 billion from increased business of BDO Life.
  - Other Income dropped 48% to P2.2 billion as the previous year included a one-time gain from the consolidation of BDO Life.
- Operating Expenses grew 20% to P41.9 billion owing to the following:
  - Employee Benefits went up 15% due to salary increases and a higher manpower count from business expansion.
  - Occupancy expenses climbed 13% due on an expanded distribution network.
  - Taxes and Licenses rose 10% from GRT on higher income.
  - Insurance expenses went up 10% due to deposit growth.

- Advertising Expenses hiked 12% following increased spending on marketing, promotional and advertising campaigns.
- Litigation/Assets Acquired expenses climbed 34% to P206 million owing to higher costs relating to litigation and maintenance of acquired assets.
- Policy Reserves as well as Insurance Benefits and Claims surged 34% and 16%, respectively, from increase BDO Life business volumes.
- Security, Clerical and Janitorial expenses as well as Other Operating Expenses increased 12% and 34%, respectively, owing to an expanded distribution network as well as increased business volumes.

- Tax Expense rose 10% to P3.7 billion on a higher taxable income base.

IV. Comprehensive Income – June 2017 vs. June 2016

- From a Net Income of P13.3 billion, the Bank registered a P14.8 billion Total Comprehensive Income for the first half of 2017. This includes a P1.8 billion increase in unrealized gain on AFS Securities, a negative P8 million translation adjustment related to foreign operations, a P218 million actuarial loss on retirement benefit asset as well as a negative P4 million share in Other Comprehensive Income (OCI) of subsidiaries and affiliates.
- The Total Comprehensive Income represents a 7% year-on-year increase from P13.9 billion, inclusive of a P13.2 billion Net Income, a P449 million increase in unrealized gain on AFS Securities, a P107 million translation adjustment and an P88 million share in OCI of subsidiaries and affiliates.

1. Key Performance Indicators

Indicator	6M 2017	6M 2016	12M 2016
Return on Average Common Equity (%)	10.19%	13.12%	12.64%
Return on Average Assets(%)	1.11%	1.27%	1.21%
Net Interest Margin	3.43%	3.24%	3.24%
Liquidity Ratio	32.85%	33.71%	33.54%
Debt to Equity	754.26%	920.96%	968.77%
Asset to Equity	854.26%	1020.96%	1068.77%
Interest Rate Coverage	302.68%	302.91%	300.44%
Profit Margin	18.91%	21.38%	21.11%
Capital Adequacy Ratio	15.69%	13.15%	12.35%
Basic Earnings per Share	3.03	3.39	7.06

2. Discussion of the company's key performance indicators. It shall include a discussion of the manner by which the company calculates or identifies the indicators presented on a comparable basis.

- Return on Average Common Equity went down to 10.19% resulting from a higher equity base owing to the SRO.
- Return on Average Assets declined to 1.11% as net income was outpaced by asset growth.
- Net Interest Margin improved to 3.43% from improvements in both loan yields and funding mix.
- Liquidity Ratio went down to 32.85% from the hike in customer loans.

- Debt to Equity and Assets to Equity declined to 754.26% and 854.26%, respectively, as the expansion in total equity from the SRO and bottomline profits, outpaced both liability and asset growth.
- Interest Rate Coverage was steady at 302.68% vis-à-vis 302.91% for the same period last year.
- Profit Margin dropped to 18.91% as cost growth outpaced revenue growth.
- Capital Adequacy Ratio, covering credit, market and operations risk improved to 15.69% owing to the SRO as well as continued profitable operations.
- Basic earnings per share went down P0.36 year-on-year to P3.03 for the first half on a larger number of common shares outstanding due to the SRO.

3.a Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

Remarks: NONE

3.b Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

Remarks: NONE

3.c Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Remarks: NONE

3.d Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.

Remarks: NONE

3.e Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

Remarks: NONE

3.f Any significant elements of income or loss that did not arise from the issuer's continuing operations.

Remarks: NONE

3.g The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

The term "material" in this section shall refer to changes of items amounting to five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.

Vertical Analysis-Material Changes

I. Balance Sheet – June 2017 vs. December 2016

Remarks: NONE

II. Balance Sheet – June 2017 vs. June 2016

Remarks: NONE

III. Income Statement – June 2017 vs. June 2016

- Service Charges and Fees as a percentage of Other Income rose to 53.0% as Trading Gain and Other Income dropped to 3.4% and 9.5% of Other Income, respectively.

3.h Any seasonal aspects that had a material effect on the financial condition or results of operations.

Remarks: NONE

BDO Unibank, Inc. & Subsidiaries
Balances by Segment
As of June 30, 2017
(Amounts in Millions of Pesos)

	Commercial Banking	Investment Banking	Private Banking	Leasing & Finance	Insurance	Others	Total	Eliminations	Group
Statement of Income									
Total Interest Income									
External	44,800	30	873	939	367	8	47,017	0	47,017
Inter-Segment	120	3	0	3	8	1	135	(135)	0
	44,920	33	873	942	375	9	47,152	(135)	47,017
Total Interest Expense									
External	7,753	0	288	330	31	(1)	8,401	0	8,401
Inter-Segment	12	23	0	76	0	24	135	(135)	0
	7,765	23	288	406	31	23	8,536	(135)	8,401
Net Interest Income	37,155	10	585	536	344	(14)	38,616	0	38,616
Other Operating Income									
Investment Banking Fees	0	892	0	0	0	0	892	0	892
Others	17,135	245	376	578	6,738	218	25,290	(2,966)	22,324
	17,135	1,137	376	578	6,738	218	26,182	(2,966)	23,216
Other Operating Expenses									
Depreciation and Amortization	2,194	22	13	409	27	14	2,679	0	2,679
Impairment Losses	2,877	3	1	25	0	0	2,906	0	2,906
Others	32,801	442	674	315	5,270	175	39,677	(457)	39,220
	37,872	467	688	749	5,297	189	45,262	(457)	44,805
Profit before Tax	16,418	680	273	365	1,785	15	19,536	(2,509)	17,027
Tax Expense	3,131	165	104	91	252	3	3,746	0	3,746
Net Profit	13,287	515	169	274	1,533	12	15,790	(2,509)	13,281
Statements of Financial Position									
Total Resources									
Segment Assets	2,337,347	6,572	72,009	41,606	36,958	5,351	2,499,843	(43,811)	2,456,032
Intangible Assets	5,278	134	23	37	36	2	5,510	2,907	8,417
Deferred Tax Assets	6,404	(196)	35	68	4	(25)	6,290	0	6,290
	2,349,029	6,510	72,067	41,711	36,998	5,328	2,511,643	(40,904)	2,470,739
Total Liabilities	2,057,066	2,734	66,464	36,564	29,207	2,193	2,194,228	(12,716)	2,181,512
Other Segment Information									
Capital expenditures	2,687	25	7	245	17	290	3,271	0	3,271
Investment in associate under equity method	4,482	0	0	265	0	0	4,747	0	4,747
Share in the Profit of associates	324	0	0	(15)	0	0	309	0	309

BDO Unibank, Inc. & Subsidiaries
Balances by Segment
As of June 30, 2016
(Amounts in Millions of Pesos)

	Commercial Banking	Investment Banking	Private Banking	Leasing & Finance	Insurance	Others	Total	Eliminations	Group
Statement of Income									
Total Interest Income									
External	37,966	35	718	860	343	24	39,946	0	39,946
Inter-Segment	68	2	0	0	3	1	74	(74)	0
	38,034	37	718	860	346	25	40,020	(74)	39,946
Total Interest Expense									
External	7,659	0	209	304	38	0	8,210	0	8,210
Inter-Segment	6	28	0	23	0	18	75	(75)	0
	7,665	28	209	327	38	18	8,285	(75)	8,210
Net Interest Income	30,369	9	509	533	308	7	31,735	1	31,736
Other Operating Income									
Investment Banking Fees	0	632	0	0	0	0	632	0	632
Others	14,911	143	685	547	5,366	285	21,937	(561)	21,376
	14,911	775	685	547	5,366	285	22,569	(561)	22,008
Other Operating Expenses									
Depreciation and Amortization	1,847	28	11	359	34	10	2,289	0	2,289
Impairment Losses	1,664	0	0	30	48	0	1,742	0	1,742
Others	27,033	340	626	308	4,346	100	32,753	(90)	32,663
	30,544	368	637	697	4,428	110	36,784	(90)	36,694
Profit before Pre-acquisition	14,736	416	557	383	1,246	182	17,520	(470)	17,050
Pre-acquisition Income	0	0	0	0	0	0		(391)	(391)
Profit before Tax	14,736	416	557	383	1,246	182	17,520	(861)	16,659
Tax Expense	2,886	106	128	101	185	5	3,411	0	3,411
Net Profit	11,850	310	429	282	1,061	177	14,109	(861)	13,248
Statements of Financial Position									
Total Resources									
Segment Assets	2,057,761	6,304	51,302	35,896	28,536	6,985	2,186,784	(44,985)	2,141,799
Intangible Assets	4,678	102	25	45	49	1	4,900	2,906	7,806
Deferred Tax Assets	6,165	(199)	52	(1)	16	(29)	6,004	0	6,004
	2,068,604	6,207	51,379	35,940	28,601	6,957	2,197,688	(42,079)	2,155,609
Total Liabilities	1,851,096	4,175	45,131	30,831	21,926	1,876	1,955,035	(10,562)	1,944,473
Other Segment Information									
Capital expenditures	2,741	15	7	325	84	269	3,441	0	3,441
Investment in associate under equity method	4,249	0	0	300	0	0	4,549	0	4,549
Share in the Profit of associates	257	0	0	0	0	0	257	0	257

THE ISSUER

BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue
Makati City Philippines

JOINT LEAD ARRANGERS AND SELLING AGENTS

Deutsche Bank AG, Manila Branch 26/F Ayala Tower One,
Ayala Triangle
Ayala Avenue
Makati City, Philippines
Makati City, Philippines

ING Bank N.V., Manila Branch
20/F Ayala Tower One,
Ayala Triangle
Ayala Avenue
Makati City, Philippines

ADDITIONAL SELLING AGENTS

BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue
Makati City
Philippines

BDO Private Bank, Inc.
BDO Equitable Tower
8751 Paseo de Roxas
Makati City
Philippines

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp.
37/F The Enterprise Center Tower I
6766 Ayala Avenue corner Paseo de Roxas
Makati City Philippines

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To the Joint Lead Arrangers
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BDO