SEC

PBCOM
PHILIPPINE BANK OF COMMUNICATIONS

PBCom Tower 6795 Ayala Avenue corner
V.A. Rufino St., 1226 Makati City, Philippines
+632 830-7000
www.pbcom.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

Sycip, Gorres, Velayo and Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ERIC O. RECTO
Chairman of the Board

PATRICIA MAY T. SIY
President and Chief Executive Officer

MANUEL ANDRES D. GOSECO
Treasurer

ARLENE M. DATU
Controller

Signed this 29th day of March 2017

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 17 2017
MARKET REGULATION DEPT.
BY: TIME:

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI CITY) SS.

SUBSCRIBED AND SWORN TO before me this APR 04 2017 at MAKATI CITY affiants, Eric O. Recto, Patricia May T. Siy, Manuel Andres D. Goseco and Arlene M. Datu, exhibiting to me their TIN 108-730-891, SSS#0373099955, SSS# 3330909412 and SSS # 0356633451, respectively.

Doc. No. 269
Page No. 54
Book No. XVIII
Series of 2017

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155/Lifetime Member
MCLE Compliance No. V-0006934
Appointment No. M-104-(2017-2018)
PTR No. 5909514 Jan. 3, 2017
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

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CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for PHILIPPINE BANK OF COMMUNICATIONS for the period ending December 31, 2016.

In discharging this responsibility, I hereby declare that I am Regulatory Reporting and Controls Head of Philippine Bank of Communications.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statement, I was not assisted by or did not avail of the services of Sycip, Gorres, Velayo and Co. which is the external auditor who rendered the audit opinion for the said Financial Statement and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

Alexie H. Ariola
Professional Identification Card No. 0102695, valid until February 10, 2018
Accreditation No. 0938, valid until February 10, 2019

APR 1 0 2017

SUBSCRIBED AND SWORN to before me this ______________, at MAKATI CITY affiants exhibiting to me his PRC ID No. 0102695 issued at Manila and valid until February 10, 2018.

Doc. No. 421
Page No. 86
Book No. XIX
Series of 2017

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Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	6	8	6	

C O M P A N Y   N A M E

PHILIPPINE BANK OF COMMUNICATIONS

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

PBCom Tower, 6795 Ayala Avenue Corner V. A. Rufino Street, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
	830-7000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Angelo Patrick F. Advincula			

CONTACT PERSON's ADDRESS

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 17 2017
MARKET REGULATION DEPT.
BY: TIME:

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

Opinion

We have audited the consolidated financial statements of Philippine Bank of Communications and its subsidiaries (the "Group") and the parent company financial statements of Philippine Bank of Communications (the "Parent Company"), which comprise the consolidated and parent company statements of financial position as at December 31, 2016 and 2015, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (the "Code of Ethics") together with the ethical requirements that are relevant to our audit of the consolidated and parent company 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 consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the Audit of the Consolidated and Parent Company Financial Statements

Impairment testing on loans and receivables
Loans and receivables consist of corporate and consumer loans, which account for 51% and 50% of the Group's and the Parent Company's total assets as of December 31, 2016, respectively. We considered the impairment testing on loans and receivables as a key audit matter as it involves significant judgment and estimates by management. Key assumptions include the timing and amounts of collections expected from the borrower and the expected cash flows from foreclosing and selling the collateral. The Group performs specific impairment testing on individually significant corporate loans. The other loans are grouped based on credit risk characteristics and are subjected to collective impairment testing. The disclosures relating to the impairment of loans and receivables are included in Notes 3 and 18 of the financial statements.

Audit response
We obtained an understanding of impairment testing process, including the identification of loans and receivables to be subjected to specifc impairment testing, and tested the key controls over impairment data and calculations. For loans and receivables subjected to specific impairment testing, we selected a sample of impaired loans, checked the mathematical accuracy of the impairment calculation, and obtained an understanding of the borrower's business and financial capacity. We tested the key inputs to the impairment calculation by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking whether the discount rates used are based on the original effective interest rate or the last repriced rate, and inspecting recent appraisal reports to determine the fair value of collateral held. For loans and receivables subjected to collective impairment testing, we tested the underlying loan information used in the impairment calculation by comparing the details to the source information systems. We tested whether the assumptions used in the impairment calculation, such as likelihood of default and loss rate, are based on historical data. We also checked the mathematical accuracy of the impairment calculation.

Valuation of investment properties
The Group accounts for its investment properties using the fair value model. The investment properties consist of condominium and office units for lease and foreclosed properties. The determination of the fair values of these properties involves significant management judgment in the use of assumptions, such as vacancy and rental rates. The valuation also requires the assistance of external appraisers whose calculations also depend on certain assumptions, such as capitalization rates, price per square meter and reproduction cost. Thus, we considered the valuation of investment properties as a key audit matter. The disclosures relating to investment properties are included in Notes 3 and 15 of the financial statements.

Audit response
We obtained an understanding of the Group's valuation process and the related controls.

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For condominium and office units for lease, we involved our internal specialist in the review of the methodology and assumptions used by the Group's external appraiser – whose professional qualifications and objectivity were also considered. We evaluated the key assumptions used, such as capitalization, vacancy and rental rates, by comparing the capitalization rates against yield data for comparable properties within the area where the Group's properties are located, vacancy rates against market data and historical vacancy rates for the Group's properties, and rental rates against rental contracts and agreements. We also checked the mathematical accuracy of the calculations.

For foreclosed properties, which consist of land and buildings and improvements, we assessed the competence and objectivity of the external appraisers and the propriety of the valuation methodology used. We tested the key inputs used in the appraisal reports, such as price per square meter for land and reproduction costs for buildings and improvements, by comparing these inputs against market data. We assessed whether the discounts applied by the management on the appraised values of the properties were based on the Group's historical data on disposals of similar properties. We also checked the mathematical accuracy of the calculations.

Realizability of deferred tax assets
As disclosed in Note 31 of the financial statements, the Group has unrecognized deferred tax assets relating to allowance for credit and impairment losses and other deductible temporary differences. Deferred tax assets have been recognized to the extent that management has assessed that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. We considered the realizability of deferred tax assets as a key audit matter since the assessment process is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

Audit response
We obtained an understanding of the Group's deferred income tax calculation process, including the applicable tax rules and regulations. We reviewed the management's assessment on the availability of future taxable profit in reference to financial forecast and tax strategies. We evaluated the management's forecast by comparing the expected growth rates of the loan and deposit portfolios with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Change in business model for managing financial assets
As disclosed in Note 3 of the financial statements, in September 2016, the Parent Company's Board of Directors (BOD) approved the change in the Parent Company's business model for managing its investments in debt securities to reflect changes in its strategic priorities and to address the requirements of BSP Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, issued on March 10, 2016.

On October 1, 2016, the first day of the accounting period following the change in business model, the Parent Company reclassified certain debt securities with an aggregate face amount of US$59.15 million (₱2,875.00 million) from the hold-to-collect portfolio to the trading portfolio and recognized a gain on reclassification of US$4.10 million (₱198.70 million).

Under PFRS 9, *Financial Instruments,* a change in business model is expected to be very infrequent as it must be significant to the entity's operations and demonstrable to external parties. Determining whether certain events would trigger a change in business model for managing financial assets is a key area of judgment for the management. Thus, we considered this as a significant audit matter.

Audit response
We obtained an understanding on how the identified triggering events changed the objective of the Parent Company's business model for managing its investments in debt securities through inquiry with relevant officers of the Parent Company and reading of the minutes of meetings of the Risk Oversight Committee and the BOD. We reviewed the new business model documentation to check whether the new policies and procedures for managing the Parent Company's investments in debt securities reflect the change in the objective of the business model. We checked the underlying processes and reports used to monitor and evaluate the performance of the debt securities portfolios – including the processes established to comply with the requirements of BSP Circular No. 905. We checked the new classifications of the debt securities based on our evaluation of the new business model. We reviewed the reclassification adjustment made by the Parent Company based on the requirements of PFRS 9.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2016 but does not include the consolidated and parent company financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2016, which are expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 PSAs 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 consolidated and parent company financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and parent company 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 Group's and the Parent Company'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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company 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 auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in 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 the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 38 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Bank of Communications. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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The engagement partner on the audit resulting in this independent auditor's report is Josephine Adrienne A. Abarca.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-3 (Group A),
February 9, 2016, valid until February 8, 2019
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908660, January 3, 2017, Makati City

March 29, 2017

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 12 2017 SCES
ELMER B. TANAY

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company		
	As of December 31				As of January 1, 2015 (As restated - Note 2)
	2016	2015	2016	2015 (As restated - Note 2)	
	(Amounts in Thousands)				
ASSETS					
Cash and Other Cash Items	**₱1,042,611**	₱1,343,340	**₱1,011,756**	₱1,311,615	₱1,153,418
Due from Bangko Sentral ng Pilipinas (Notes 19 and 20)	**13,356,075**	11,909,774	**13,276,681**	11,839,461	12,463,067
Due from Other Banks	**2,996,758**	2,008,522	**2,631,497**	1,786,592	1,375,645
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 9)	**310,131**	229,281	**310,131**	229,281	832,604
Financial Assets at Fair Value through Profit or Loss (Note 10)	**300,483**	395,258	**300,483**	395,258	684,219
Equity Securities at Fair Value through Other Comprehensive Income (Note 11)	**52,242**	44,452	**52,242**	44,452	42,975
Investment Securities at Amortized Cost (Note 12)	**13,135,494**	14,468,390	**13,135,494**	14,468,390	13,256,310
Loans and Receivables (Note 13)	**46,089,437**	36,502,141	**44,303,654**	34,629,214	32,306,710
Investments in Subsidiaries and an Associate (Note 8)	**12,376**	12,113	**1,023,334**	928,156	857,365
Property and Equipment (Note 14)					
At cost	**1,130,034**	1,271,792	**1,066,588**	1,199,503	1,320,698
At appraised value	**519,010**	519,010	**470,113**	470,113	441,307
Investment Properties (Note 15)					
Condominium units for lease	**5,044,552**	4,799,635	**5,044,552**	4,799,635	3,959,178
Foreclosed properties	**957,000**	880,234	**721,780**	681,408	566,058
Office units for lease	**23,858**	19,142	**23,858**	19,142	–
Goodwill (Note 7)	**178,456**	178,456	**–**	–	–
Intangible Assets (Note 16)	**781,166**	824,816	**516,008**	558,066	554,742
Deferred Tax Assets - net (Note 31)	**59,717**	49,545	**–**	–	–
Other Assets (Note 17)	**509,333**	620,415	**493,863**	603,767	579,546
TOTAL ASSETS	**₱86,498,733**	₱76,076,316	**₱84,382,034**	₱73,964,053	₱70,393,842
LIABILITIES AND EQUITY					
LIABILITIES					
Deposit Liabilities (Notes 19 and 32)					
Demand	**₱15,464,230**	₱12,523,472	**₱15,571,988**	₱12,610,784	₱9,450,291
Savings	**6,943,767**	5,054,764	**6,400,070**	4,507,544	3,487,510
Time	**40,737,984**	40,724,117	**39,227,043**	39,437,185	44,818,420
	63,145,981	58,302,353	**61,199,101**	56,555,513	57,756,221
Bills Payable (Note 20)	**10,099,384**	6,481,620	**10,099,384**	6,296,862	3,421,652
Outstanding Acceptances	**34,357**	42,065	**34,357**	42,065	25,620
Manager's Checks	**300,385**	108,914	**300,385**	108,914	211,130
Accrued Interest, Taxes and Other Expenses (Note 21)	**414,575**	539,185	**382,452**	501,415	521,673
Income Tax Payable	**240**	29,774	**182**	10,241	8,770
Deferred Tax Liabilities - net (Note 31)	**1,105,523**	1,033,544	**974,865**	911,399	621,893
Other Liabilities (Note 7 and 22)	**616,552**	614,838	**601,293**	606,433	600,824
TOTAL LIABILITIES	**75,716,997**	67,152,293	**73,592,019**	65,032,842	63,167,783

(Forward)

	Consolidated		Parent Company		
	As of December 31				As of January 1,
	2016	2015	**2016**	2015 (As restated - Note 2)	2015 (As restated - Note 2)
	(Amounts in Thousands)				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
Common stock (Note 24)	**₱7,489,114**	₱7,489,114	**₱7,489,114**	₱7,489,114	₱7,489,114
Subscribed common stock - net (Note 24)	**4,581,340**	3,187,019	**4,581,340**	3,187,019	1,792,698
Additional paid-in capital	**813,515**	813,601	**813,601**	813,601	813,601
Surplus reserves (Note 24)	**105,772**	105,772	**105,772**	105,772	105,772
Deficit (Note 24)	**(2,345,243)**	(2,745,295)	**(2,345,243)**	(2,745,295)	(2,948,596)
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 11)	**33,621**	25,831	**33,621**	25,831	24,354
Revaluation increment on land, office units and condominium properties (Notes 14 and 15)	**280,228**	280,228	**280,228**	280,228	247,743
Cumulative translation adjustment	**(72,739)**	(52,394)	**(72,739)**	(52,394)	(27,392)
Remeasurement losses on retirement liability (Notes 8 and 28)	**(95,679)**	(172,665)	**(95,679)**	(172,665)	(271,235)
	10,789,929	8,931,211	**10,790,015**	8,931,211	7,226,059
NON-CONTROLLING INTERESTS	**(8,193)**	(7,188)	–	–	–
TOTAL EQUITY	**10,781,736**	8,924,023	**10,790,015**	8,931,211	7,226,059
TOTAL LIABILITIES AND EQUITY	**₱86,498,733**	₱76,076,316	**₱84,382,034**	₱73,964,053	₱70,393,842

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 13 and 32)	**₱2,902,068**	₱2,597,337	₱2,079,458	**₱2,539,901**	₱2,299,675	₱2,036,406
Investment securities (Note 27)	**676,016**	628,963	798,169	**676,016**	628,963	798,154
Deposits with other banks	**37,583**	61,835	27,368	**37,202**	61,296	27,397
Interbank loans receivable and securities purchased under resale agreements (Notes 9 and 32)	**19,073**	11,431	21,715	**19,073**	19,033	21,715
Others	–	–	197,642	–	–	197,642
	3,634,740	3,299,566	3,124,352	**3,272,192**	3,008,967	3,081,314
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 19 and 32)	**861,401**	869,926	882,095	**799,652**	825,398	871,840
Bills payable, borrowings and others (Note 20)	**177,385**	103,672	300,315	**176,704**	99,321	299,919
	1,038,786	973,598	1,182,410	**976,356**	924,719	1,171,759
NET INTEREST INCOME	**2,595,954**	2,325,968	1,941,942	**2,295,836**	2,084,248	1,909,555
Rent income (Notes 15, 29 and 32)	**474,213**	404,072	313,424	**474,105**	403,948	313,350
Service charges, fees and commissions	**363,635**	426,556	326,464	**326,484**	377,997	297,601
Fair value gain from investment properties (Note 15)	**286,404**	941,728	380,407	**252,095**	929,751	380,407
Gain on reclassification of investment securities from amortized cost to FVTPL (Note 12)	**198,700**	–	–	**198,700**	–	–
Trading and securities gain (loss) - net (Note 27)	**48,339**	(40,465)	61,957	**48,339**	(40,465)	61,957
Income from trust operations (Notes 26 and 28)	**16,864**	18,300	19,055	**16,864**	18,300	19,055
Gain (loss) on assets exchange - net (Note 15)	**12,170**	3,702	(21,435)	**12,170**	(215)	(21,539)
Foreign exchange gain - net	**11,474**	10,200	31,805	**11,474**	10,200	31,805
Profit (loss) from assets sold (Notes 14, 15 and 17)	**(7,316)**	5,335	9,019	**(7,915)**	4,608	8,865
Gain (loss) on disposal of investment securities at amortized cost (Note 12)	–	48,174	(258)	–	48,174	(258)
Miscellaneous	**51,071**	90,827	21,928	**39,061**	30,355	19,631
TOTAL OPERATING INCOME	**4,051,508**	4,234,397	3,084,308	**3,667,213**	3,866,901	3,020,429

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 15, 28 and 32)	**₱1,181,173**	₱1,344,158	₱1,366,032	**₱1,074,104**	₱1,240,970	₱1,345,892
Provision for (reversal of) credit and impairment losses - net (Note 18)	**477,968**	443,802	(194,853)	**396,223**	391,493	(198,541)
Taxes and licenses (Notes 15 and 31)	**406,471**	435,777	380,124	**377,609**	409,648	375,008
Depreciation and amortization (Note 14)	**345,578**	290,531	197,961	**324,496**	270,192	192,927
Occupancy and other equipment-related costs (Notes 15, 29 and 32)	**184,412**	217,691	210,472	**173,159**	202,716	207,097
Management and professional fees	**150,628**	162,627	80,827	**147,839**	158,643	78,266
Insurance	**126,452**	128,052	102,877	**119,230**	122,735	100,913
Security, clerical, messengerial and janitorial services	**84,980**	99,563	96,430	**75,177**	91,548	94,712
Entertainment, amusement and recreation	**77,515**	62,879	81,825	**77,198**	62,715	81,756
Communications	**58,180**	67,378	67,379	**56,303**	60,889	66,612
Miscellaneous (Notes 15 and 30)	**323,713**	292,389	285,495	**289,543**	267,105	269,929
TOTAL OPERATING EXPENSES	**3,417,070**	3,544,847	2,674,569	**3,110,881**	3,278,654	2,614,571
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	**634,438**	689,550	409,739	**556,332**	588,247	405,858
SHARE IN NET INCOME (LOSS) OF SUBSIDIARIES (Note 8)	–	–	–	**49,683**	70,747	(6,313)
SHARE IN NET INCOME OF AN ASSOCIATE (Note 8)	**263**	468	361	**263**	468	361
INCOME BEFORE INCOME TAX	**634,701**	690,018	410,100	**606,278**	659,462	399,906
PROVISION FOR INCOME TAX (Note 31)	**234,821**	486,336	299,553	**206,226**	456,161	288,949
NET INCOME	**₱399,880**	₱203,682	₱110,547	**₱400,052**	₱203,301	₱110,957

Attributable to:			
Equity holders of the Parent Company	**₱400,052**	₱203,301	₱110,957
Non-controlling interests	**(172)**	381	(410)
	₱399,880	₱203,682	₱110,547
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 33)	**₱1.34**	₱0.68	₱0.37

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱399,880**	₱203,682	₱110,547	**₱400,052**	₱203,301	₱110,957
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Item that may be reclassified to profit or loss in subsequent periods:						
Net movement in cumulative translation adjustment	**(20,345)**	(25,002)	(15,781)	**(20,345)**	(25,002)	(15,781)
Items that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement gains (losses) on retirement liability (Note 28)	**76,561**	98,235	(34,151)	**77,695**	99,780	(33,067)
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 11)	**7,790**	1,477	197	**7,790**	1,477	197
Net movement in revaluation increment on land, office units and condominium properties (Notes 14 and 15)	–	46,450	54,567	–	45,285	54,567
Income tax relating to components of other comprehensive income	**437**	(13,619)	(16,102)	–	(13,586)	(16,370)
	84,788	132,543	4,511	**85,485**	132,956	5,327
	64,443	107,541	(11,270)	**65,140**	107,954	(10,454)
TOTAL OTHER COMPREHENSIVE INCOME BEFORE SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES	**464,323**	311,223	99,277	**465,192**	311,255	100,503
SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES						
Items that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement losses on retirement liability (Note 8)	**–**	–	–	**(1,146)**	(1,526)	(1,075)
Net movement in revaluation increment on land, office units and condominium properties (Note 8)	–	–	–	–	1,123	–
Income tax relating to components of other comprehensive income	–	–	–	**437**	(21)	267
TOTAL OTHER COMPREHENSIVE INCOME	**₱464,323**	₱311,223	₱99,277	**₱464,483**	₱310,831	₱99,695
Attributable to:						
Equity holders of the Parent Company	**₱464,483**	₱310,831	₱99,695			
Non-controlling interests	**(160)**	392	(418)			
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱464,323**	₱311,223	₱99,277			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY

	Consolidated												
	Years Ended December 31, 2016, 2015 and 2014												
	Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 24)	Subscribed Common Stock - net (Note 24)	Additional Paid-in Capital	Surplus Reserves (Note 24)	Deficit (Note 24)	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income (Note 11)	Revaluation Increment on Land, Office Units and Condominium Properties (Notes 14 and 15)	Cumulative Translation Adjustment	Remeasurement Losses on Retirement Liability (Note 28)	Total	Non-Controlling Interests	Total Equity
	(Amounts in Thousands)												
Balances at January 1, 2016	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱–	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211	(₱7,188)	₱8,924,023
Collection of subscription receivable (Note 24)	–	1,394,321	–	–	–	–	–	–	–	–	1,394,321	–	1,394,321
Total comprehensive income (loss) for the year	–	–	–	–	400,052	–	7,790	–	(20,345)	76,989	464,486	(163)	464,323
Acquisition of non-controlling interests (Note 8)	–	–	(86)	–	–	–	–	–	–	(3)	(89)	(855)	(944)
Deposit for future stock subscription (Note 8)	–	–	–	–	–	–	–	–	–	–	–	13	13
Balances at December 31, 2016	**₱7,489,114**	**₱4,581,340**	**₱813,515**	**₱105,772**	**(₱2,345,243)**	**₱–**	**₱33,621**	**₱280,228**	**(₱72,739)**	**(₱95,679)**	**₱10,789,929**	**(₱8,193)**	**₱10,781,736**
Balances at January 1, 2015	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,948,596)	₱–	₱24,354	₱247,743	(₱27,392)	(₱271,235)	₱7,226,059	(₱7,580)	₱7,218,479
Collection of subscription receivable (Note 24)	–	1,394,321	–	–	–	–	–	–	–	–	1,394,321	–	1,394,321
Total comprehensive income (loss) for the year	–	–	–	–	203,301	–	1,477	32,485	(25,002)	98,570	310,831	392	311,223
Balances at December 31, 2015	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱–	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211	(₱7,188)	₱8,924,023
Balances at January 1, 2014	₱7,489,114	₱–	₱813,601	₱105,772	(₱3,076,034)	(₱1,219,413)	₱–	₱209,546	(₱11,611)	(₱237,360)	₱4,073,615	₱–	₱4,073,615
Effect of early adoption of PFRS 9	–	–	–	–	16,481	1,219,413	24,157	–	–	–	1,260,051	–	1,260,051
Effect of business combination	–	–	–	–	–	–	–	–	–	–	–	(7,162)	(7,162)
Subscription of common stock (Note 24)	–	1,792,698	–	–	–	–	–	–	–	–	1,792,698	–	1,792,698
Total comprehensive income (loss) for the year	–	–	–	–	110,957	–	197	38,197	(15,781)	(33,875)	99,695	(418)	99,277
Balances at December 31, 2014	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,948,596)	₱–	₱24,354	₱247,743	(₱27,392)	(₱271,235)	₱7,226,059	(₱7,580)	₱7,218,479

See accompanying Notes to Financial Statements.

Parent Company

Years Ended December 31, 2016, 2015 and 2014

	Common Stock (Note 24)	**Subscribed Common Stock - net** (Note 24)	**Additional Paid-in Capital**	**Surplus Reserves** (Note 24)	**Deficit** (Note 24)	**Net Unrealized Gain (Loss) on Available-for-Sale Investments**	**Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income** (Note 11)	**Revaluation Increment on Land, Office Units and Condominium Properties** (Notes 14 and 15)	**Cumulative Translation Adjustment**	**Remeasurement Losses on Retirement Liability** (Notes 8 and 28)	**Total Equity**
						(Amounts in Thousands)					
Balances at January 1, 2016, as restated	**₱7,489,114**	**₱3,187,019**	**₱813,601**	**₱105,772**	**(₱2,745,295)**	**₱–**	**₱25,831**	**₱280,228**	**(₱52,394)**	**(₱172,665)**	**₱8,931,211**
Collection of subscription receivable (Note 24)	–	**1,394,321**	–	–	–	–	–	–	–	–	**1,394,321**
Total comprehensive income (loss) for the year	–	–	–	–	**400,052**	–	**7,790**	–	**(20,345)**	**76,986**	**464,483**
Balances at December 31, 2016	**₱7,489,114**	**₱4,581,340**	**₱813,601**	**₱105,772**	**(₱2,345,243)**	**₱–**	**₱33,621**	**₱280,228**	**(₱72,739)**	**(₱95,679)**	**₱10,790,015**
Balances at January 1, 2015, as previously stated	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,951,928)	₱–	₱24,354	₱247,743	(₱27,392)	(₱270,427)	₱7,223,535
Effects of the adoption of equity method in investment in subsidiaries and an associate (Note 2)	–	–	–	–	3,332	–	–	–	–	(808)	2,524
Balances at January 1, 2015, as restated	7,489,114	1,792,698	813,601	105,772	(2,948,596)	–	24,354	247,743	(27,392)	(271,235)	7,226,059
Collection of subscription receivable (Note 24)	–	1,394,321	–	–	–	–	–	–	–	–	1,394,321
Total comprehensive income (loss) for the year	–	–	–	–	203,301	–	1,477	32,485	(25,002)	98,570	310,831
Balances at December 31, 2015	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱–	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211
Balances at January 1, 2014	₱7,489,114	₱–	₱813,601	₱105,772	(₱3,085,318)	(₱1,219,413)	₱–	₱209,546	(₱11,611)	(₱237,360)	₱4,064,331
Effect of early adoption of PFRS 9	–	–	–	–	16,481	1,219,413	24,157	–	–	–	1,260,051
Effect of the adoption of equity method in investment in subsidiaries and an associate (Note 2)	–	–	–	–	9,284	–	–	–	–	–	9,284
Balance at January 1, 2014, as restated	7,489,114	–	813,601	105,772	(3,059,553)	–	24,157	209,546	(11,611)	(237,360)	5,333,666
Subscription of common stock (Note 24)	–	1,792,698	–	–	–	–	–	–	–	–	1,792,698
Total comprehensive income (loss) for the year	–	–	–	–	110,957	–	197	38,197	(15,781)	(33,875)	99,695
Balances at December 31, 2014	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,948,596)	₱–	₱24,354	₱247,743	(₱27,392)	(₱271,235)	₱7,226,059

See accompanying Notes to Financial Statements.

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PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱634,701**	₱690,018	₱410,100	**₱606,278**	₱659,462	₱399,906
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:						
Provision for (reversal of) credit and impairment losses (Note 18)	**477,968**	443,802	(194,853)	**396,223**	391,493	(198,541)
Depreciation and amortization (Notes 14 and 16)	**345,578**	290,531	197,961	**324,496**	270,192	192,927
Fair value gain on investment properties (Note 15)	**(286,404)**	(941,728)	(380,407)	**(252,095)**	(929,751)	(380,407)
Gain on reclassification of investment securities from amortized cost to FVTPL (Note 12)	**(198,700)**	–	–	**(198,700)**	–	–
Accretion of interest on unquoted debt securities (Note 13)	**(180,520)**	(182,628)	(262,937)	**(180,520)**	(182,628)	(262,937)
Loss (gain) from sale of investment securities at amortized cost (Note 12)	**–**	(48,174)	258	**–**	(48,174)	258
Unrealized loss (gain) on financial assets at FVTPL	**(48,339)**	3,136	5,509	**(48,339)**	3,136	5,509
Loss (gain) on assets exchanged (Note 15)	**(12,170)**	(3,702)	21,435	**(12,170)**	215	21,539
Loss (profit) from assets sold (Note 15)	**7,316**	(5,335)	(9,019)	**7,915**	(4,608)	(8,865)
Share in net loss (income) of subsidiaries and an associate (Note 8)	**(263)**	(468)	(361)	**(49,946)**	(71,215)	5,952
Accretion of interest on bills payable	**–**	–	210,893	**–**	–	210,893
Amortization of unearned income credited to interest income - others	**–**	–	(197,642)	**–**	–	(197,642)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables	**(9,941,668)**	(3,268,639)	(7,352,754)	**(9,941,778)**	(2,563,072)	(7,112,505)
Financial assets at FVTPL	**341,813**	285,825	1,422,921	**341,813**	285,825	1,422,921
Other assets	**114,831**	(14,474)	(222,188)	**118,625**	(6,328)	(224,642)
Increase (decrease) in the amounts of:						
Deposit liabilities	**4,843,628**	(817,263)	10,281,808	**4,643,587**	(1,202,221)	10,475,724
Manager's checks	**191,472**	(102,216)	37,629	**191,472**	(102,216)	37,629
Accrued interest, taxes and other expenses	**(124,610)**	5,012	(9,743)	**(118,962)**	(20,258)	(18,939)
Other liabilities	**79,219**	77,854	260,134	**72,969**	105,389	260,514
Net cash generated from (used for) operations	**(3,756,148)**	(3,588,449)	4,218,744	**(4,099,132)**	(3,414,759)	4,629,294
Income taxes paid	**(192,375)**	(207,496)	(196,222)	**(152,818)**	(178,770)	(198,772)
Net cash provided by (used in) operating activities	**(3,948,523)**	(3,795,945)	4,022,522	**(4,251,950)**	(3,593,529)	4,430,522
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable	**(49,720)**	89,440	(44,769)	**(49,720)**	89,440	(44,769)
Acquisitions of:						
Investment securities at amortized cost	**(2,264,061)**	(2,009,366)	(1,026,686)	**(2,264,061)**	(2,009,366)	(1,016,670)
Property and equipment (Note 14)	**(146,031)**	(146,276)	(512,523)	**(136,227)**	(136,840)	(509,729)
Software cost (Note 16)	**(32,984)**	(56,435)	(150,255)	**(32,140)**	(56,435)	(150,255)
Investment properties (Notes 14 and 15)	**(30,005)**	(8,632)	(1,133)	**(30,005)**	(8,632)	(1,133)
Chattel mortgage	**(28,325)**	(45,471)	(19,978)	**(28,325)**	(45,471)	(19,978)
Subsidiaries (Notes 7 and 8)	**–**	–	(43,599)	**(45,000)**	–	(852,841)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As restated - Note 2)	2014 (As restated - Note 2)
	(Amounts in Thousands)					
Disposals of:						
Investment securities	**₱–**	₱845,460	₱496,837	**₱–**	₱845,460	₱496,836
Investment properties (Note 15)	**48,837**	25,184	172,157	**50,323**	19,064	171,507
Property and equipment (Note 14)	**24,272**	49,402	24,720	**24,272**	49,399	23,551
Chattel mortgage	**11,839**	16,076	900	**11,839**	16,076	900
Proceeds from maturity of investment securities	**3,596,957**	–	6,562,880	**3,596,957**	–	6,562,880
Net cash provided by (used in) investing activities	**1,130,779**	(1,240,618)	5,458,551	**1,097,913**	(1,237,305)	4,660,299
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of:						
Bills payable	**103,725,503**	39,069,117	25,647,949	**103,725,500**	38,783,769	25,647,949
Outstanding acceptances	**405,111**	567,502	1,248,917	**405,111**	567,502	1,248,917
Marginal deposits	**37,683**	37,913	7,602	**37,683**	37,913	(7,602)
Settlements of:						
Bills payable	**(100,107,738)**	(36,012,924)	(31,936,967)	**(99,922,984)**	(35,908,558)	(31,895,431)
Outstanding acceptances	**(412,820)**	(551,056)	(1,266,485)	**(412,820)**	(551,056)	(1,266,485)
Marginal deposits	**(39,033)**	(36,401)	(7,602)	**(39,033)**	(36,401)	7,602
Proceeds from shares subscription (Note 24)	**1,394,321**	1,394,321	1,792,698	**1,394,321**	1,394,321	1,792,698
Net cash provided by (used in) financing activities	**5,003,027**	4,468,472	(4,513,888)	**5,187,778**	4,287,490	(4,472,352)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(20,345)**	(25,002)	(15,781)	**(20,345)**	(25,002)	(15,781)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,164,938**	(593,093)	4,951,404	**2,013,396**	(568,346)	4,602,688
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**1,343,340**	1,181,592	740,012	**1,311,615**	1,153,418	740,012
Due from Bangko Sentral ng Pilipinas	**11,909,774**	12,522,613	9,573,407	**11,839,461**	12,463,067	9,573,408
Due from other banks	**2,008,522**	1,636,641	661,308	**1,786,592**	1,375,646	661,308
Interbank loans receivable and securities purchased under resale agreements (Note 34)	**229,281**	743,164	157,879	**229,281**	743,164	157,879
	15,490,917	16,084,010	11,132,606	**15,166,949**	15,735,295	11,132,607
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**1,042,611**	1,343,340	1,181,592	**1,011,756**	1,311,615	1,153,418
Due from Bangko Sentral ng Pilipinas	**13,356,075**	11,909,774	12,522,613	**13,276,681**	11,839,461	12,463,067
Due from other banks	**2,996,758**	2,008,522	1,636,641	**2,631,497**	1,786,592	1,375,646
Interbank loans receivable and securities purchased under resale agreements (Note 34)	**260,411**	229,281	743,164	**260,411**	229,281	743,164
	₱17,655,855	₱15,490,917	₱16,084,010	**₱17,180,345**	₱15,166,949	₱15,735,295

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015	2014
	(Amounts in Thousands)					
Interest paid	**₱1,061,279**	₱974,872	₱986,131	**₱996,632**	₱932,702	₱979,207
Interest received	**3,554,941**	3,131,233	3,026,918	**3,352,973**	2,799,462	2,996,212

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the "Parent Company") is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 82 local branches and 11 other banking offices. The Parent Company's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to regular commercial banking.

On February 26, 2014, the BOD of the Parent Company approved the acquisitions of Rural Bank of Nagcarlan, Inc. (RBNI) and Banco Dipolog, Inc. A Rural Bank (BDI). The acquisitions were completed in 2014 and both RBNI and BDI were consolidated with the Parent Company from the time the latter gained control.

On May 9, 2014, the SEC approved the incorporation of the Parent Company's wholly-owned subsidiary, PBCom Insurance Services Agency, Inc. (PISAI).

The Parent Company's subsidiaries and an associate (collectively referred to as the "Group"), which are all incorporated in the Philippines, are engaged in the following businesses:

	Effective Percentage of Ownership		
Entity	**2016**	2015	Line of Business
Subsidiaries			
RBNI	**96.32%**	96.32%	Rural Bank
BDI	**99.99%**	99.80%	Rural Bank
PISAI	**100.00%**	100.00%	Insurance Agent
Associate			
PBCom Finance Corporation (PBCom Finance)	**40.00%**	40.00%	Financing Company

<u>Rehabilitation Plan</u>
On March 15, 2004, the Parent Company and its majority stockholders entered into a Financial Assistance Agreement (FAA) with the Philippine Deposit Insurance Corporation (PDIC) with the following salient provisions:

1. Fresh capital infusion from the existing major stockholders amounting to ₱3.00 billion;
2. Compliance at all times with a risk-based capital adequacy ratio (RBCAR) of at least 12.50%, with any shortfall thereof to be covered by additional capital infusion from the major stockholders;
3. Prohibition against the sale of, or lien or encumbrances on the controlling interest;
4. Sale of certain nonperforming assets (NPAs) to a Special Purpose Vehicle (SPV) and amortization of losses from such sale based on SPV guidelines, with the necessary modifications or amendments thereto;
5. Maximum direct loan from PDIC amounting to ₱7.64 billion payable at the end of ten years with interest rate of 1.00% per annum;
6. Unless the loan is prepaid in accordance with the FAA, the major stockholders agree to absolutely divest, sell or transfer their controlling interest to a strategic third party investor; and
7. Prior approval from PDIC on the declaration, distribution, or payment of cash or stock dividends; effecting any profit sharing or distribution of bonuses to directors and officers of the Parent Company; transactions or activities not in accordance with the rehabilitation plan; and any single major capital expenditure.

On March 25, 2004, the BSP, through its Monetary Board, approved the revised Financial Recovery and Rehabilitation Program of the Parent Company subject to the following conditions, among others:

a. Infusion of the ₱3.00 billion fresh capital (as required under the FAA discussed above) within 30 days from the approval date of the rehabilitation plan; and
b. Existing appraisal increment reserve shall be allowed as part of unimpaired capital for purposes of computing the regulatory ratios.

On March 26, 2004, the major stockholders infused the ₱3.00 billion fresh capital to the Parent Company as advances for future stock subscriptions, while waiting for the approval of the SEC on the amendment of the Parent Company's Articles of Incorporation covering the increase in the authorized capital stock of the Parent Company by the creation of new preferred shares. On April 1, 2006, the SEC approved the capital increase of the Parent Company from ₱14.50 billion to ₱17.50 billion.

Financial assistance
Proceeds from the PDIC loan amounting to ₱7.64 billion were used by the Parent Company to purchase government securities (GS Collateral), which were pledged to PDIC to secure such obligation. The 12.375% interest income on these securities, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, represents PDIC's income support to the Parent Company. Any interest income in excess of 85.00% of the actual losses from the sale of NPAs to an SPV shall inure to PDIC's benefit. The actual loss on the sale of the NPAs (the SPV losses) amounting to ₱10.77 billion, which was charged on the year it was incurred, is the difference between the net book value of the NPAs and the proceeds from such sale. For regulatory purposes, the loss was allowed under the regulations issued by the BSP for banks and financial institutions availing the provisions of Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*, to be deferred and amortized to profit or loss over ten years.

On September 29, 2011, the Parent Company requested for the substitution of the government securities being used as collateral for the ₱7.64 billion PDIC loan with other obligations of the Republic of the Philippines and/or other acceptable risk-free instruments. With the then prevailing favorable market conditions, the existing GS Collateral provided a key opportunity for the Parent Company to counteract the income support deficiency amidst the full recognition of the SPV losses.

On January 5, 2012, the PDIC approved the Parent Company's request for the substitution of the government securities pledged as collateral for its ₱7.64 billion loan from PDIC, subject to the following conditions:

1. The existing government securities shall be replaced only with a similar type of government securities maturing not earlier than the March 2014 loan maturity but no later than 2020, with interest enough to (i) cover 20.00% final tax and 1.00% interest due to PDIC and (ii) provide continuing income support to the Parent Company up to March 2014 as originally intended under the 2004 FAA;
2. The substitution of the existing government securities shall be allowed in tranches with a minimum of ₱500.00 million per tranche and must be completed within a 4-month period reckoned from the 1st tranche of government securities substitution. Once the substitution of the entire ₱7.64 billion government securities have been completed, no further substitution shall be allowed by PDIC until the loan matures in March 2014;
3. The existing government securities or a portion thereof, shall be released only after the substitute government securities have been pledged to PDIC;
4. During the substitution period and until the settlement in full of the ₱7.64 billion loan from PDIC, the Parent Company commits to maintain a total market value of the government securities at ₱7.80 billion;
5. A periodic determination of the market value of the collateral aspect shall be made on a monthly basis and every time a substitution is made and in cases of significant interest rate movement in the market;
6. In the event of shortfall or decrease in the market value of the substitute government securities, the Parent Company is bound to deliver additional collateral as may be acceptable to PDIC, to restore and maintain the market value of government securities collateral to at least ₱7.80 billion. PDIC may allow release of excess collateral upon written request of the Parent Company;
7. Any yield (including the gain as a result of the substitution) on the substitute government securities in excess of the cap of 85.00% of the actual SPV losses, shall inure to the benefit of PDIC, pursuant to the FAA; and
8. In no case shall any portion of the PDIC income support, including the gain as a result of the substitution, be used to declare, distribute or pay cash or stock dividends, or effect any profit sharing or distribution of bonuses to directors and officers of the Parent Company.

On November 14, 2012, the BOD of PDIC approved the request of the Parent Company for the extension of the substitution up to December 31, 2013, to complete the GS Collateral substitution process.

For the year ended December 31, 2013, total income received by the Parent Company, which includes the gain arising from the sale of GS Collateral, net of all taxes and the corresponding 1.00% interest expense on the PDIC loan, amounted to ₱6.14 billion. The total income received by the Parent Company from the income support is below 85.00% of the actual losses incurred from the sale of NPAs.

On March 26, 2014, the Parent Company exited the 10-year FAA with the settlement of the ₱7.64 billion PDIC loan that matured on that date.

Strategic third party investors
On July 26, 2011, pursuant to the FAA, the major shareholders of the Parent Company, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with ISM Communications Corporation (the "ISM Group"), involving the sale of their entire stake in the Parent Company to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to ₱2.80 billion in the Parent Company.

On October 31, 2011, the Monetary Board approved the ISM Group's acquisition of the controlling interest in the Parent Company.

On December 23, 2011, the ISM Group's acquisition of the Parent Company was successfully transacted through the Philippine Stock Exchange (PSE) via a special block sale.

On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares at ₱33.00 per share. These shares will be issued out of the unissued portion of the Parent Company's authorized capital stock. On August 6, 2014, in compliance with banking law and regulations, the Parent Company and PGH submitted the subscription agreement to the BSP for its approval.

The subscription by PGH to new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. Both PGH and VFC are owned by Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015 and June 29, 2016, the Parent Company received the second and third installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH (see Note 24).

<u>BSP Approvals</u>
The BSP, in its Resolution No. 2088 dated December 14, 2012, approved the request of the Parent Company to book ₱1.92 billion revaluation increment resulting from the revaluation of PBCom Tower and allowed the Parent Company to include the revaluation increment as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. Out of the ₱1.92 billion revaluation increment, ₱1.57 billion was included in the carrying value of condominium units for lease included under 'Investment properties'. Deferred tax liability recognized and charged to the statement of income from the revaluation increment amounted to ₱470.95 million. The remaining revaluation increment of ₱359.29 million on condominium units included under 'Property and equipment' was not recognized in the financial statements because the Parent Company's accounting policy for property and equipment, except land, is to carry these assets at cost.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation
The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), equity securities at fair value through other comprehensive income (FVTOCI) and investment properties that are measured at fair value, and land classified as 'Property and equipment' that is measured at appraised value. The financial statements are presented in Philippine peso (PHP or ₱) and all values are rounded to the nearest thousand, unless otherwise stated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the PHP and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company's subsidiaries is the PHP.

Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Group and the Parent Company present its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 23.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for within equity as reduction to additional paid-in capital. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, *Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Servicing Contracts*
    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
    - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply the change retrospectively.

  To comply with BSP Circular No. 915, *Amendments on Accounting Guidelines for Prudential Reporting to the BSP*, the Parent Company changed its method of accounting for its investments in subsidiaries and an associate from the cost method to the equity method.

  Additional statement of financial position as at January 1, 2015 is presented in the separate financial statements due to retrospective application of the change in accounting policy. The effects of retrospective restatement of items in the financial statements are shown below:

  Statements of financial position

	As of December 31, 2015	As of January 1, 2015
Increase (decrease) in:		
Investment in subsidiaries and an associate	₱73,315	₱2,524
Deficit	(74,547)	(3,332)
Remeasurement losses on defined benefit liability	2,018	808
Revaluation increment on land, office units and condominium properties	786	–

Statements of comprehensive income

	Years Ended December 31	
	2015	2014
Increase (decrease) in:		
Share in net income of subsidiaries and an associate	₱71,215	(₱5,952)
Share in remeasurement losses of retirement liability of subsidiaries, net of tax	1,210	808
Net movement in revaluation increment on land, office units and condominium properties, net of tax	786	–

Foreign Currency Translation

RBU

As of the statement of financial position date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated into PHP based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, based on the spot rate at date of transactions. Foreign exchange differences arising from the restatement of foreign currency-denominated monetary assets and liabilities in the RBU are credited to or charged against the statement of income in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As of the statement of financial position date, the FCDU's assets and liabilities are translated into PHP, the Parent Company's presentation currency, at the PDS closing rate prevailing at the statement of financial position date, and income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVTPL, derivatives and equity securities at FVTOCI, and non-financial assets such as land under 'Property and equipment' and investment properties, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each statement of financial position date.

External valuers are involved for the valuation of investment properties. Selection criteria include market knowledge, reputation, independence, relevant accreditation, and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents since withdrawals can be made to meet the Group's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

<u>SPURA</u>
The Group enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Date of Recognition

The Group recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to:

a. The recognition of an asset on the day it is received by the Group; and
b. The derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group.

Any change in fair value of unrecognized financial asset is recognized in the statement of income or in equity, depending on the classification of the financial asset. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Group.

Classification, Measurement and Reclassification of Financial Assets

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an ‘equity instrument’ if it is a non-derivative and meets the definition of ‘equity’ for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are ‘debt instruments’.

a. Financial Assets at Amortized Cost

   Financial assets are measured at amortized cost if both of the following conditions are met:

   - The asset is held within the Group’s business model whose objective is to hold assets in order to collect contractual cash flows; and
   - The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses, with the interest calculated recognized as ‘Interest income’ in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of income under ‘Provision for (reversal of) credit and impairment losses - net’. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of income.

   The Group classified ‘Cash and other cash items’, ‘Due from BSP’, ‘Due from other banks’, ‘Interbank loans receivable and SPURA’, ‘Loans and receivables’, and ‘Investment securities at amortized cost’ as financial assets at amortized cost.

   The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2016 and 2015, the Group has not made such designation.

b. Financial Assets at FVTOCI
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the investment in equity instrument is held for trading.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in ‘Unrealized gain on equity securities carried at FVTOCI’ in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in ‘Unrealized gain on equity securities carried at FVTOCI’ is not reclassified to statement of income, but is reclassified to ‘Deficit’.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 11).

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Group’s right to receive the dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under ‘Miscellaneous income’.

c. Financial Assets at FVTPL
Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity instrument that is not held for trading as at FVTOCI at initial recognition.

The Group’s financial assets at FVTPL include government securities and private bonds held for trading purposes.

As of December 31, 2016 and 2015, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as ‘Trading and securities gain (loss) - net’ in the statement of income. Interest earned on these investments is reported as ‘Interest income’ in the statement of income while dividend income is reported under ‘Miscellaneous income’ in the statement of income when the right of payment has been established.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI.

d. Derivative Instruments
Derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (for example, financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs reassessment only where there is a change to the contract that significantly modifies the contractual cash flows.

Reclassification of financial assets
The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify as follows:

- From amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- From FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows are solely payments of principal and interest on the principal outstanding.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted. A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

For individually assessed financial assets, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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.

In addition to impairment assessment against individually significant financial assets, the Group also makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally planned. The assets are grouped based on credit risk characteristics and are subjected to collective impairment assessment. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently, for assets with credit risk characteristics similar to those in the group. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the financial asset at amortized cost is reduced by the impairment loss (included under 'Provision for (reversal of) credit and impairment losses - net' in the statement of income) directly for all financial assets at amortized cost with the exception of 'Loans and receivables', where the carrying amount is reduced through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized. The amount of impairment loss is recognized under 'Provision for (reversal of) credit and impairment losses - net' in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. 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, the previously recognized impairment loss is reversed through the statement of income to the extent that the carrying amount of the financial asset at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Restructured loans
Where possible, the 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. Once the terms have been renegotiated, the loan is no longer considered as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for (reversal of) credit and impairment losses - net' in the statement of income.

Classification and Measurement of Financial Liabilities
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost
These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position caption 'Deposit liabilities' and 'Bills payable', which are not designated at FVTPL.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either:

    a. Has transferred substantially all the risks and rewards of the asset; or
    b. Has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of income.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

<u>Investments in Subsidiaries and an Associate in the Parent Company Financial Statements</u>
Subsidiaries
A subsidiary is an entity in which the Parent Company holds more than half of the issued share capital or controls more than 50% of the voting power, or exercises control over the operations and management of the subsidiary.

Associate
An associate is an entity in which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group and the Parent Company's investment in its subsidiaries and an associate are accounted for using the equity method. Under the equity method, the investments in subsidiaries and an associate is initially recognized at cost. The carrying amount of the investments in subsidiaries and an associate is adjusted to recognize changes in the Group's and the Parent Company's net assets of the subsidiaries and an associate since the acquisition date. Goodwill relating to the subsidiaries and an associate is included in the carrying value of the investments and is not amortized.

The statement of income reflects the Group's and the Parent Company's share of the results of operations of the subsidiaries and an associate. Any change in OCI of the investee is presented as part of the Group's and the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary and an associate, the Group and the Parent

Company recognize their share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the subsidiaries and an associate are eliminated to the extent of the interest in the subsidiaries and an associate. The aggregate of the Group's share in net income (loss) of subsidiaries and an associate is shown on the income and represents profit or loss after tax.

The financial statements of the subsidiaries and an associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dividends received are treated as a reduction in the carrying amount of the investments. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the:

a. Income or losses;
b. Remeasurement losses on retirement liability; and
c. Revaluation increment on land, office units and condominium properties.

Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at appraised value. The appraisal values were determined by professionally qualified and independent appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land, office units and condominium properties' under OCI, net of deferred tax liability.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are charged against statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Construction in progress is stated at cost and includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets.

The EULs of components of property and equipment are as follows:

	Years
Condominium properties	50
Buildings and improvements	25
Furniture, fixtures and equipment	5

Leasehold improvements are amortized over the EUL of one to ten years or the terms of the related leases, whichever is shorter.

The residual values, EULs and methods of depreciation and amortization of property and equipment are reviewed at each statement of financial position date and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to statement of income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax (DST) that are for the account of the Bank. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless:

a. The exchange transaction lacks commercial substance; or
b. The fair value of neither the asset received nor the asset given up is reliably measurable, in which case, the cost of the investment property is measured at the carrying amount of the asset given up.

Foreclosed properties are recorded as “Investment properties” upon:

a. Entry of judgment in case of judicial foreclosure;
b. Execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or
c. Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions at the statement of financial position date. Gains or losses resulting from changes in the fair values of investment properties are recognized in the statement of income under ‘Fair value gain from investment properties’ in the period in which they arise.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property carried at fair value to owner-occupied property, the asset's deemed cost for subsequent accounting is its fair value at the date of change in use. For transfers from owner-occupied property to investment property under the fair value model, the related properties are accounted for under property and equipment up to the time of change in use. At that date, any difference between the carrying amount of the property and the fair value is to be treated in the same way as a revaluation and be recognized in OCI and accumulated in equity.

The revaluation surplus included in equity in respect of an item of investment property may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through statement of income.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit (loss) from assets sold'.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized in the statement of income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of income.

Intangible Assets
Intangible assets consists of goodwill, brach licenses and software costs.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill and branch licenses, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the cash-generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Branch licenses
These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Software costs
Costs related to software purchased by the Group for use in operations are recognized as 'Intangible assets' in the statement of financial position. Capitalized computer software costs are amortized on a straight-line basis over two to five years.

Impairment of Non-financial Assets
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case, the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current statement of income, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the said asset.

The following criteria are also applied in assessing impairment of specific assets:

Investments in subsidiaries and an associate
The Parent Company assesses at each statement of financial position date whether there is any indication that its investments in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its VIU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Property and equipment
The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and when the carrying values exceed the estimated recoverable amounts, the assets or CGUs are written down to their recoverable amounts.

Goodwill
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Branch licenses
Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Software costs
Software costs are assessed for impairment whenever there is an indication that these assets may be impaired.

Common Stock and Additional Paid-in Capital
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Subscribed Common Stock
Subscribed common stock is recognized at subscribed amount, net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscription Receivable
Subscription receivable refers to the total amount of subscription to be received. The Parent Company accounted for the subscription receivable as a contra equity account.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest on financial instruments is recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR 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 EIR, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. 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 thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Fees and commissions
Loan fees that are directly related to acquisition and origination of loans are included in the cost of the loan and are amortized using the effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligation to perform under the syndication agreement.

Trading and securities gain (loss) - net
Trading and securities gain (loss) - net represents results arising from trading activities, including gains and losses from changes in fair value of financial assets at FVTPL.

Dividends
Dividends are recognized when the Group's right to receive the payments is established.

Rental
Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition
Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are cost attributable to administrative and other business activities of the Group.

Interest Expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate to.

Retirement Benefits
Defined benefit plans
The Parent Company, BDI and RBNI maintain separate defined benefit plans covering all of their respective officers and regular employees.

The net retirement liability is the aggregate of the present value of defined benefit obligation at the statement of financial position date reduced by the fair value of plan assets and adjusted for any effect of limiting a net retirement asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related net retirement. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement costs comprise of service costs and net interest on the net retirement liability.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net retirement liability is the change during the period in the net retirement liability that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net retirement liability. Net interest on the net retirement liability is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risks associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Defined contribution plans
The Parent Company also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

BDI also has another plan where it contributes an amount equal to 5.00% of the member's plan salary plus the contribution of the member as deducted from the member's plan salary.

Payments to the defined contribution plans are recognized as expenses when employees have rendered service in exchange for these contributions.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes
Current tax
Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced 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.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI and not in the statement of income.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some of a or all provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Assets and Contingent Liabilities

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements, unless the possibility of an outflow of assets embodying economic benefits is remote.

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments are presented in Note 6. No geographical segment information is presented as all of the Group's operations are in the Philippines.

Fiduciary Activities
Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material to the financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Business model test
The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers the following:

a. Sales or derecognition of debt instrument under any of the circumstances spelled out under paragraph 7, section 2 of BSP Circular No. 708, Series of 2011;
b. Sales made due to occurrence of events specific to the Group that severely curtails the Group's access to regular sources of liquidity other than the lending facilities of the BSP as lender of last resort in order to forestall the Group's having to default on obligations or entering into financial distress;
c. Sales made due to occurrence of systemic events affecting the industry that severely curtails access to credit and funding other than the lending facilities of the BSP as lender of last resort in order to forestall the need for the Group to draw on the emergency lending facilities;
d. Sales attributable to the corrective measures of Asset and Liability Committee (ALCO) to bring the asset-liability structure within the Board's risk appetite and targeted ratios;
e. Sales attributable to a significant decline in debt instruments liquidity characteristics to meet the minimum eligibility criteria of stock of High Quality Liquid Assets (HQLA); and
f. Sales attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality, and/or the liability profile of the Group.

In 2015, the Parent Company disposed of various securities under its hold-to-collect (HTC) portfolio to realign the composition of Secondary Reserves as provided for under the Parent Company's Liquidity Contingency Plan (see Note 5 for the discussion on Liquidity Risk and Funding Management). In 2014, the Parent Company disposed of various securities under its HTC portfolio to fund its lending requirement.

After each of the above disposals, the Parent Company assessed whether such sales are consistent with the objective of the business model to collect contractual cash flows. The Parent Company concluded that despite these disposals, there is no change in its objective in managing the HTC portfolio. The disposals were made for specific reasons and do not constitute a change in the Parent Company's business model for the affected portfolio. Thus, the remaining securities in the affected portfolio continue to be measured at amortized cost (see Note 12).

In September 2016, the Group recognized a change in the business model for managing its investments in debt securities to reflect the changes in its strategic priorities and to address the requirements of BSP Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards,* issued on March 10, 2016. The Group's new strategic priorities aim to give focus to the small business segment to realize synergies between the retail network of the new strategic investor. The Parent Company assessed that these events changed the primary objective of the business model for managing its investment in debt securities, that is, from realization of accrual income to investing in high-quality liquid debt securities as a cost effective way of keeping an ample reserve of liquidity ready for a stress-scenario within the framework provided by BSP Circular No. 905.

On October 1, 2016, the first day of the accounting period following the change in business model for managing its investments in debt securities, the Parent Company reclassified debt securities with aggregate face amount of US$59.15 million (₱2,875.00 million) from the hold-to-collect portfolio to the trading portfolio and recognized a gain on reclassification of US$4.10 million (₱198.70 million) presented under 'Gain on reclassification of investment securities from amortized cost to FVTPL' in the statements of income (see Note 12).

Cash flow characteristics test
When the financial assets are held within a business model to collect its contractual cash flows, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Operating leases
- Group as Lessor
  The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on the evaluation of the terms and conditions of the arrangements (that is, the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these contracts as operating leases.

- Group as Lessee
  The Group has entered into leases on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreements (that is, the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price significantly lower than fair value and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of the ownership of these properties and so accounts for these contracts as operating leases.

Fair value of financial instruments
Where the fair values of financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 25).

Change in use of assets
PAS 40, *Investment Property,* requires management to use its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassifications from and to investment properties are discussed in Notes 14 and 15.

<u>Estimates and Assumptions</u>
Impairment of loans and receivables
The Group reviews its loans and receivables, which mainly consist of corporate and consumer loans, at each statement of financial position date to assess whether an allowance for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of timing and amounts of collections expected from the borrower and the expected cash flows from foreclosing and selling the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The Group provides specific allowance on individually significant corporate loans. The other loans are grouped based on credit risk characteristics and are provided with collective allowance.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 13 and 18, respectively.

Fair value determination of investment properties
The Group accounts for its investment properties using the fair value model. The investment properties consist of condominium and office units for lease and foreclosed properties. In determining the fair values of this properties, on a periodic basis, the Group engages valuation specialists.

For condominium and office units, the valuer used a valuation technique based on the income capitalization approach since these properties generate cash flows through rental income. The fair value of condominium and office units is most sensitive to the capitalization rate as determined by external appraisers, and vacancy and rental rates as determined by management.

For foreclosed properties, which consist of land and buildings and improvements, the valuer used market sales comparison approach. The fair value of foreclosed properties is most sensitive to price per square meter for land, and reproduction cost and depreciation percentage for buildings and improvements.

The key assumptions used to determine the fair value of these assets are further discussed in Note 4.

The fair value of investment properties is disclosed in Note 15.

Realizability of deferred tax assets
Deferred tax assets are recognized for credit and impairment losses and other deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

The recognized and unrecognized deferred tax assets are disclosed in Note 31.

Impairment of non-financial assets

- Goodwill
  The Group determines whether goodwill is impaired at least on an annual basis. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the CGU is insufficient to support its carrying value.

  The recoverable amount of the CGU has been determined based on a VIU calculation using the CGU's cash flow projections from a strategic plan covering a five-year period. Key assumptions in VIU calculation are most sensitive to the following assumptions:

  a. Discount rate, which is based on the cost of equity by reference to comparable entities using the capital asset pricing models;
  b. Loan and deposit portfolios growth rates; and
  c. Growth rate to project cash flows beyond the budget period.

The carrying value of goodwill of the Group is disclosed in Note 7.

- Branch Licenses
  The Group's management conducts an annual review for any impairment in value of its intangible assets. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value.

  An impairment loss recognized in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

  The recoverable amount of the branch licenses has been determined based on a VIU calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The VIU calculation is most sensitive to the discount rate and growth rate to project cash flows beyond the budget period.

  The carrying value of intangible assets is disclosed in Note 16.

Present value of defined benefit obligation
The cost of defined benefit plans, as well as the present value of defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and salary increase rates. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

In determining the appropriate discount rate, management considers the present value of cash flows (expected benefit payments) as of valuation date, which is determined using the rates from the derived zero yield curve. The discount rate used is the single-weighted uniform discount rate, which when applied to the same cash flows, results in the same present value as of the valuation date. Salary increase rates are based on expected future inflation rates, historical annual merit, market and promotional increases.

The retirement asset and liability as of December 31, 2016 and 2015 is disclosed in Note 28.

Revaluation of land
The Group measures its land at revalued amounts with changes in appraised value being recognized in OCI. The fair value of the Group's land at revalued amount was based on a third party appraisal using market sales comparison approach. The fair value of land classified under 'Property and equipment' is most sensitive to price per square meter, which is disclosed in Note 4.

The revalued amount of land included under 'Property and equipment' in the statements of financial position is disclosed in Note 14.

4. Fair Value Measurement

The following tables provide the fair value hierarchy of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
	2016				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱188,014**	**₱188,014**	**₱188,014**	**₱–**	**₱–**
Private bonds	**112,469**	**112,469**	**–**	**112,469**	**–**
Equity securities at FVTOCI	**40,935**	**40,935**	**–**	**40,935**	**–**
Currency forwards	**2,135,539**	**2,135,539**	**–**	**2,135,539**	**–**
	2,476,957	**2,476,957**	**188,014**	**2,288,943**	**–**
Non-financial assets					
Investment properties:					
Condominium units for lease	**5,044,552**	**5,044,552**	**–**	**–**	**5,044,552**
Foreclosed properties:					
Land	**520,617**	**520,617**	**–**	**–**	**520,617**
Buildings and improvements	**436,383**	**436,383**	**–**	**–**	**436,383**
Office units for lease	**23,858**	**23,858**	**–**	**–**	**23,858**
Land classified under Property and equipment	**519,010**	**519,010**	**–**	**–**	**519,010**
	6,544,420	**6,544,420**	**–**	**–**	**6,544,420**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**11,510,454**	**10,479,529**	**6,952,813**	**3,526,716**	**–**
Private bonds	**1,625,040**	**1,572,135**	**–**	**1,572,135**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**32,725,104**	**35,570,644**	**–**	**–**	**35,570,644**
Consumer loans	**8,971,067**	**11,839,446**	**–**	**–**	**11,839,446**
Unquoted debt securities	**3,157,373**	**4,138,789**	**–**	**–**	**4,138,789**
	57,989,038	**63,600,543**	**6,952,813**	**5,098,851**	**51,548,879**
	₱67,010,415	**₱72,621,920**	**₱7,140,827**	**₱7,387,794**	**₱58,093,299**
Liability for which fair value is disclosed					
Financial liability at amortized cost:					
Time deposits	**₱40,737,984**	**₱40,789,963**	**₱–**	**₱–**	**₱40,789,963**

	Consolidated				
	2015				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial asset at FVTPL:					
Private bonds	₱395,258	₱395,258	₱–	₱395,258	₱–
Equity securities at FVTOCI	33,145	33,145	–	33,145	–
	428,403	428,403	–	428,403	–
Non-financial assets					
Investment properties:					
Condominium units for lease	4,799,635	4,799,635	–	–	4,799,635
Foreclosed properties:					
Land	506,702	506,702	–	–	506,702
Buildings and improvements	373,532	373,532	–	–	373,532

(Forward)

	Consolidated				
	2015				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Office units for lease	₱19,142	₱19,142	₱–	₱–	₱19,142
Land classified under Property and equipment	519,010	519,010	–	–	519,010
	6,218,021	6,218,021	–	–	6,218,021
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	12,274,555	11,052,229	2,686,580	8,365,649	–
Private bonds	2,193,835	2,235,510	–	2,235,510	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	23,967,491	24,873,213	–	–	24,873,213
Consumer loans	7,382,292	10,030,295	–	–	10,030,295
Unquoted debt securities	3,943,674	4,495,123	–	–	4,495,123
	49,761,847	52,686,370	2,686,580	10,601,159	39,398,631
	₱56,408,271	₱59,332,794	₱2,686,580	₱11,029,562	₱45,616,652
Liabilities for which fair values are disclosed					
Financial liability at amortized cost:					
Time deposits	₱40,724,117	₱40,963,403	₱–	₱–	₱40,963,403
Currency forwards	47,412	47,412	–	47,412	–
	₱40,771,529	₱41,010,815	₱–	₱47,412	₱40,963,403

	Parent Company				
	2016				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱188,014**	**₱188,014**	**₱188,014**	**₱–**	**₱–**
Private bonds	**112,469**	**112,469**	**–**	**112,469**	**–**
Equity securities at FVTOCI	**40,935**	**40,935**	**–**	**40,935**	**–**
Currency forwards	**2,135,539**	**2,135,539**	**–**	**2,135,539**	**–**
	2,476,957	**2,476,957**	**188,014**	**2,288,943**	**–**
Non-financial assets					
Investment properties:					
Condominium units for lease	**5,044,552**	**5,044,552**	**–**	**–**	**5,044,552**
Foreclosed properties:					
Land	**324,053**	**324,053**	**–**	**–**	**324,053**
Buildings and improvements	**397,727**	**397,727**	**–**	**–**	**397,727**
Office units for lease	**23,858**	**23,858**	**–**	**–**	**23,858**
Land classified under Property and equipment	**470,113**	**470,113**	**–**	**–**	**470,113**
	6,260,303	**6,260,303**	**–**	**–**	**₱6,260,303**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**11,510,454**	**10,479,529**	**1,532,603**	**8,946,926**	**–**
Private bonds	**1,625,040**	**1,572,135**	**–**	**1,572,135**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**32,725,104**	**35,570,644**	**–**	**–**	**35,570,644**
Consumer loans	**7,247,089**	**10,014,890**	**–**	**–**	**10,014,890**
Unquoted debt securities	**3,157,373**	**4,138,789**	**–**	**–**	**4,138,789**
	56,265,060	**61,775,987**	**1,532,603**	**10,519,061**	**49,724,323**
	₱65,002,320	**₱70,513,247**	**₱1,720,617**	**₱12,808,004**	**₱55,984,626**
Liability for which fair value is disclosed					
Financial liability at amortized cost:					
Time deposits	**₱39,227,043**	**₱39,245,247**	**₱–**	**₱–**	**₱39,245,247**

	Parent Company				
	2015				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Private bonds	₱395,258	₱395,258	₱–	₱395,258	₱–
Equity securities at FVTOCI	33,145	33,145	–	33,145	–
	428,403	428,403	–	428,403	–
Non-financial assets					
Investment properties:					
Condominium units for lease	4,799,635	4,799,635	–	–	4,799,635
Foreclosed properties:					
Land	330,744	330,744	–	–	330,744
Buildings and improvements	350,664	350,664	–	–	350,664
Office units for lease	19,142	19,142	–	–	19,142
Land classified under Property and equipment	470,113	470,113	–	–	470,113
	5,970,298	5,970,298	–	–	5,970,298
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	12,274,555	11,052,229	2,686,580	8,365,649	–
Private bonds	2,193,835	2,235,510	–	2,235,510	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	23,967,491	24,873,213	–	–	24,873,213
Consumer loans	5,548,603	7,138,783	–	–	7,138,783
Unquoted debt securities	3,943,674	4,495,123	–	–	4,495,123
	47,928,158	49,794,858	2,686,580	10,601,159	36,507,119
	₱54,326,859	₱56,193,559	₱2,686,580	₱11,029,562	₱42,477,417
Liabilities for which fair values are disclosed					
Financial liability at amortized cost:					
Time deposits	₱39,437,185	₱39,676,471	₱–	₱–	₱39,676,471
Currency forwards	47,412	47,412	–	47,412	–
	₱39,484,597	₱39,723,883	₱–	₱47,412	₱39,676,471

As of December 31, 2016 and 2015, there were no financial instruments carried at fair value that were measured based on Level 3 inputs. Movements in the fair value measurement of non-financial assets categorized within Level 3 are discussed in Note 14 for Land classified under 'Property and equipment' and Note 15 for 'Investment properties'.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2016 and 2015.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are as follows:

Investment Securities

Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using consensus prices obtained from Bloomberg.

Quoted equity securities

Fair values of club shares are based on quoted prices published in GG&A Club Shares. GG&A Club Shares is involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities
Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of measuring at a reliable fair value. These are carried at cost less any allowance for impairment losses. Unquoted equity securities are not significant relative to the Group's portfolio of financial instruments.

Loans and Receivables
Cash and other cash items, amounts due from BSP and other banks and interbank loans receivable and SPURA
Carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers
Fair values of loans and receivables are estimated using the discounted cash flow methodology that makes use of the Group's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities
Fair values are estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread.

Accrued interest receivable and returned checks and other cash items (RCOCI)
Carrying amounts approximate fair values due to the short-term nature of the accounts, with some items that are due and demandable.

Accounts receivable, sales contracts receivable and refundable security deposits
Quoted market prices are not available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of financial instruments.

Derivative Assets/Liabilities
Currency forwards
Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets/liabilities.

Non-financial Assets
Land, office units, condominium units and buildings and improvements
Fair values are based on appraised values determined by professionally qualified and independent appraisers.

Financial Liabilities at Amortized Cost
Deposit liabilities
Fair values of time deposits are estimated based on the discounted cash flow methodology that makes use of the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

Bills payable
The fair value is estimated using the discounted cash flow methodology that makes use of the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Where the instrument has a relatively short maturity, carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued interest payable, accrued other expenses, accounts payable, refundable security deposits and due to the Treasurer of the Philippines
Carrying amounts approximate fair values due to the short-term nature of the accounts, with some items that are due and demandable.

Significant Unobservable Inputs
Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) follows:

		Consolidated		
Description	**Fair Value at December 31, 2016**	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (in Nearest Peso)**
Investment properties (Note 15)				
Condominium units for lease	**₱5,044,552**	Income capitalization approach	Capitalization rate	**9.20%**
			Vacancy rate	**10.00%**
			Rental rates	**₱851 - ₱1,684**
Foreclosed properties:				
Land	**520,617**	Market sales comparison approach	Price per square meter	**₱35 - ₱143,750**
Buildings and improvements	**436,383**	Market sales comparison approach	Reproduction cost	**₱976 - ₱112,000**
Office units for lease	**23,858**	Income capitalization approach	Capitalization rate	**8.00%**
			Vacancy rate	**20.00%**
			Rental rates	**₱237 - ₱249**
Land classified under Property and equipment (Note 14)	**519,010**	Market sales comparison approach	Price per square meter	**₱16,000 - ₱110,000**

		Consolidated		
Description	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 15)				
Condominium units for lease	₱4,799,635	Income capitalization approach	Capitalization rate	8.30%
			Vacancy rate	5.00%
			Rental rates	₱731 - ₱1,474
Foreclosed properties:				
Land	506,702	Market sales comparison approach	Price per square meter	₱30 - ₱143,750
Buildings and improvements	373,532	Market sales comparison approach	Reproduction cost	₱321 - ₱110,000
Office units for lease	19,142	Income capitalization approach	Capitalization rate	7.50%
			Vacancy rate	5.00%
			Rental rates	₱237
Land classified under Property and equipment (Note 14)	519,010	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000

Parent Company				
Description	**Fair Value at December 31, 2016**	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (in Nearest Peso)**
Investment properties (Note 15)				
Condominium units for lease	**₱5,044,552**	Income capitalization approach	Capitalization rate	**9.20%**
			Vacancy rate	**10.00%**
			Rental rates	**₱851 - ₱1,684**
Foreclosed properties:				
Land	**324,053**	Market sales comparison approach	Price per square meter	**₱35 - ₱143,750**
Buildings and improvements	**397,727**	Market sales comparison approach	Reproduction cost	**₱976 - ₱112,000**
Office units for lease	**23,858**	Income capitalization approach	Capitalization rate	**8.00%**
			Vacancy rate	**20.00%**
			Rental rates	**₱237 - ₱249**
Land classified under Property and equipment (Note 14)	**470,113**	Market sales comparison approach	Price per square meter	**₱16,000 - ₱110,000**

Parent Company				
Description	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 15)				
Condominium units for lease	₱4,799,635	Income capitalization approach	Capitalization rate	8.30%
			Vacancy rate	5.00%
			Rental rates	₱731 - ₱1,474
Foreclosed properties:				
Land	330,744	Market sales comparison approach	Price per square meter	₱30 - ₱143,750
Buildings and improvements	350,664	Market sales comparison approach	Reproduction cost	₱321 - ₱110,000
Office units for lease	19,142	Income capitalization approach	Capitalization rate	7.50%
			Vacancy rate	5.00%
			Rental rates	₱237
Land classified under Property and equipment (Note 14)	470,113	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000

Investment properties are stated at fair value, which has been determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC. The fair values of foreclosed assets were derived based on market sales comparison approach. Under this approach, recent transactions for similar properties in the same areas as the investment properties were considered, taking into account the economic conditions prevailing at the time the valuation were made. Prices of recent transactions are adjusted to account for differences in a property's size, shape, location, marketability and bargaining allowances. For depreciable properties, the significant input considered in the valuations is the reproduction cost, which is the estimated cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

On the other hand, the fair value of the condominium and office units for lease was determined using the income capitalization approach model, a valuation model in accordance with that recommended by the Philippine Valuation Standards. The income capitalization approach model is used since the properties generate revenue from rental income. Income capitalization approach is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor. The rate of interest calculated represents the relationship between income and value observed in the market and is derived through comparable sales analysis. The income from a property, usually the annual net operating income or pre-tax cash flow, is divided by its sale or equity price to obtain the income rate.

The valuation, therefore, is based on the following critical assumptions:

- Rental rates are based on contracted rental rates as of December 31, 2016 and 2015. All other income and expenses are based on actual amounts earned/incurred in 2016 and 2015.
- Capitalization rate (income rate) was based on market rent for similar properties which ranges from 6.57% to 9.84% in 2016 and from 6.34% to 10.34% in 2015.
- Vacancy rates was based on vacancy rates for comparable properties within the area where the Group's properties are located, which ranges from 10% to 20% in 2016 and 2015.
- The floor areas used in the valuation is the total leasable area.

There has been no change in the valuation techniques used from 2015 to 2016.

5. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to the following risks from its financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk

    i. Interest rate risk
    ii. Foreign currency risk
    iii. Equity price risk

Risk management structure

The Group's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.

BOD
The BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Risk Oversight Committee (ROC)
The ROC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Enterprise Risk Management Group (ERMG)
The ERMG is an independent unit within the Parent Company that directly reports to the ROC. It is the responsibility of the ERMG to identify, analyze and measure risks from the Parent Company's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk control
The Risk Control function performs the important day-to-day monitoring of risk exposures of the Parent Company against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Treasury segment
The Treasury Segment is responsible for managing the Parent Company's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Parent Company.

Internal Audit Group (IAG)
Risk management processes throughout the Group are audited by the IAG which examines both the adequacy of the procedures and the Group's compliance thereto. The IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group, as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the ROC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis for prudential reporting and on an annual basis for financial reporting.

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from its lending and trading of securities and foreign exchange activities. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. The ERMG monitors exposures in relation to these limits.

Through the Group's Credit Management Group (CMG), the Group is able to continuously manage credit-related risks in its risk asset portfolio through objective assessments/evaluations of credit proposals prior to presentation to the Credit Committee, ensuring the highest standards of credit, due diligence and independence.

The Group obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Group's credit risk management process is guided by policies and procedures established by the CMG and approved by the BOD.

The Parent Company has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The system covers companies with asset size of more than ₱15.00 million and with financial statements audited by SEC-accredited auditors starting reporting year 2005. The Parent Company adopted the Bankers Association of the Philippines model which has been approved by the BSP under BSP Circular No. 439 as a minimum standard for an ICRRS. The system has two components, namely: a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and b) Facility Risk Factor which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 14 grades, 10 of which fall under unclassified accounts and the remaining four are classified accounts according to regulatory provisioning guidelines. The use of the 14 grade rating scale started in June 2013. Previously, the rating scale comprise of 10 grades only (six unclassified and four classified accounts).

The Group has a loan portfolio quality and credit process review in place that allows the Group to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Group's Credit Review Unit under the CMG.

Maximum exposure to credit risk
The tables below provide the analysis of the maximum exposure of the Group's and the Parent Company's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated					
	2016			2015		
	Gross Maximum Exposure	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	**₱32,725,104**	**₱26,214,633**	**₱6,510,471**	₱23,967,491	₱18,355,441	₱5,612,050
Consumer loans	**8,971,067**	**3,206,228**	**5,764,839**	7,382,292	3,873,762	3,508,530
Credit exposure	**₱41,696,171**	**₱29,420,861**	**₱12,275,310**	₱31,349,783	₱22,229,203	₱9,120,580

	Parent Company					
	2016			2015		
	Gross Maximum Exposure	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	**₱32,725,104**	**₱26,214,633**	**₱6,510,471**	₱23,967,491	₱18,355,441	₱5,612,050
Consumer loans	**7,247,089**	**1,573,013**	**5,674,076**	5,548,603	2,143,931	3,404,672
Credit exposure	**₱39,972,193**	**₱27,787,646**	**₱12,184,547**	₱29,516,094	₱20,499,372	₱9,016,722

For sales contracts receivable, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of these sales contracts receivable are disclosed in Note 13.

Risk concentrations by industry
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Group's policies on group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks
The Parent Company makes available to its customers guarantees that may require the Parent Company to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and are mitigated by the same control processes and policies.

The industry sector analysis of the maximum exposure of the Group to credit risk concentration follows (amounts in millions):

	Consolidated									
	2016					2015				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total
Government	₱2,092	₱13,356	₱11,510	₱–	₱26,958	₱1,684	₱11,910	₱12,275	₱–	₱25,869
Wholesale and retail trade	9,552	–	–	2,099	11,651	7,339	–	–	1,686	9,025
Construction and real estate	8,548	–	250	414	9,212	6,701	–	250	234	7,185
Manufacturing	7,875	–	–	1,253	9,128	6,415	–	–	698	7,113
Banks and financial institutions	5,183	3,307	–	–	8,490	3,537	2,238	–	–	5,775
Transportation, storage, communication	1,825	–	112	–	1,937	1,495	–	801	33	2,329
Electricity, gas and water supply	2,941	–	–	3	2,944	1,719	–	–	–	1,719
Agriculture, hunting and forestry	1,125	–	–	40	1,165	922	–	–	1	923
Mining and quarrying	282	–	–	15	297	386	–	–	39	425
Others	9,274	–	1,263	120	10,657	8,472	–	1,538	145	10,155
	48,697	16,663	13,135	3,944	82,439	38,670	14,148	14,864	2,836	70,518
Less allowance for credit and impairment losses	2,608	–	–	–	2,608	2,168	–	–	–	2,168
	₱46,089	₱16,663	₱13,135	₱3,944	₱79,831	₱36,502	₱14,148	₱14,864	₱2,836	₱68,350

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits and commitments and contingencies*

	Parent Company									
	2016					2015				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total
Government	₱2,092	₱13,277	₱11,510	₱–	₱26,879	₱1,684	₱11,839	₱12,275	₱–	₱25,798
Wholesale and retail trade	9,486	–	–	2,099	11,585	7,299	–	–	1,686	8,985
Construction and real estate	8,454	–	250	414	9,118	6,701	–	250	234	7,185
Manufacturing	7,875	–	–	1,253	9,128	6,415	–	–	698	7,113
Banks and financial institutions	5,183	2,941	–	–	8,124	3,537	2,016	–	–	5,553
Transportation, storage, communication	1,825	–	112	–	1,937	1,495		801	33	2,329
Electricity, gas and water supply	2,941	–	–	3	2,944	1,719	–	–	–	1,719
Agriculture, hunting and forestry	808	–	–	40	848	534	–	–	1	535
Mining and quarrying	282	–	–	15	297	386	–	–	39	425
Others	7,984	–	1,263	118	9,365	7,093	–	1,538	145	8,776
	46,930	16,218	13,135	3,942	80,225	36,863	13,855	14,864	2,836	68,418
Less allowance for credit and impairment losses	2,626	–	–	–	2,626	2,234	–	–	–	2,234
	₱44,304	₱16,218	₱13,135	₱3,942	₱77,599	₱34,629	₱13,855	₱14,864	₱2,836	₱66,184

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits and commitments and contingencies*

Collateral and other credit enhancements
The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities
- For commercial lending: deposit hold-out, mortgages over real estate properties, machineries, inventory and trade receivables
- For retail lending: mortgages over residential properties

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Collaterals obtained by the Group from settlement of loans and receivables in 2016 and 2015 and which remain outstanding as of December 31, 2016 and 2015 amounted to ₱87.85 million and ₱38.54 million, respectively (see Note 15).

The Group does not hold collateral on financial assets which it may sell or repledge in the absence of default by the owner of the collateral.

Credit quality per class of financial assets
<u>Loans and receivables</u>
The description of the loan grades or Internal Credit Risk Rating used by the Group for corporate loans follows:

Borrower's Risk Rating (BRR) Grade	Description
1	Excellent
2	Strong
3	Good
4	Fairly Good
5	Satisfactory
6	Fairly Satisfactory
7	Acceptable
8	Acceptable with Care
9	Acceptable with Caution
10	Watch List
11	Loans Especially Mentioned
12	Substandard
13	Doubtful
14	Loss

The grades are defined as follows:

Excellent - An obligor rated 1 has an excellent capacity to meet its financial commitments with minimal credit risk.

Strong - An obligor rated 2 has a strong capacity to meet its financial commitments with very low credit risk.

Good - An obligor rated 3 has a good capacity to meet its financial commitments with low credit risk.

Fairly Good - An obligor rated 4 differs from rated 3 obligor only to a small degree and has a fairly good capacity to meet its financial commitments with low credit risk.

Satisfactory - An obligor rated 5 has a satisfactory capacity to meet its financial commitments with moderate credit risk.

Fairly Satisfactory - An obligor rated 6 has a fairly satisfactory capacity to meet its financial commitments with moderate credit risk.

Acceptable - An obligor rated 7 has an acceptable capacity to meet its financial commitments with substantial credit risk.

Acceptable with Care - A credit, though acceptable, needs care in granting facilities. However, the borrower is still creditworthy.

Acceptable with Caution - A credit, though acceptable, needs significant caution to be exercised while granting facilities to the borrower. The borrower is still creditworthy but has problems that need to be addressed.

Watch List - Below standard. An obligor rated 10 is judged to be of poor credit standing and is subject to high default risk.

Loans Especially Mentioned - These are loans that have unlocated collateral folders and documents, not supported by board resolutions authorizing the borrowings, without credit investigation report or not supported by documents required under Subsection 4312Q.1 of the Manual of Regulations for Banks.

Substandard - Loans which involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics.

Doubtful - Loans which have existing facts, conditions, and values that make collection or liquidation in full highly improbable and in which substantial loss is probable.

Loss - Loans which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of the Group's loans and receivables from customers, which is based on the ICRRS grade, is grouped as follows:

High Grade (BRR 1 to 7)
Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (BRR 8 to 10)
Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade or Past-Due (BRR 11 to 14)
Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. Positive and vigorous management action is required to avert or minimize loss.

Due from banks, interbank receivables, government securities and corporate investments
The Group follows an internally developed risk rating system for local banks and external risk ratings [that is, Standard and Poor's (S&P)] for foreign banks, government securities and corporate investments.

A description of the rating systems for local banks follows:

High Grade (Tier 1)
Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

Standard Grade (Tier 2 to Tier 3)
These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument, thus, increase credit risk to the Group.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)
Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.

The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.

BBB and below:

BBB - Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligation is currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D - Obligation is in payment default. Payments on an obligation are not made on the due date even if the applicable grace period has not expired. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

The tables below show the credit quality by class of financial assets based on the credit rating system of the Group and the Parent Company:

	Consolidated						
	2016						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱79,394	₱–	₱–	₱13,276,681	₱–	₱–	₱13,356,075
Due from other banks	343,647	33,712	262,425	13,051	–	–	652,835
	423,041	33,712	262,425	13,289,732	–	–	14,008,910
Loans and receivables:							
Receivables from customers*:							
Corporate	29,837,461	2,737,701	8,274	–	6,189	1,662,119	34,251,744
Consumer	8,149,510	144,555	536,830	–	698,329	38,204	9,567,428
Unquoted debt securities	1,606,323	–	–	1,551,050	–	–	3,157,373
Accrued interest receivable	232,058	16,074	73	113,773	14,342	403,801	780,121
Accounts receivable	1,508	192,045	99,856	425,678	–	42,264	761,351
Sales contracts receivable	–	142,614	9,255	–	17,145	10,574	179,588
RCOCI	–	–	2,406	–	–	–	2,406
Refundable security deposits	–	1,604	28,449	–	–	–	30,053
	39,826,860	3,234,593	685,143	2,090,501	736,005	2,156,962	48,730,064
Total	₱40,249,901	₱3,268,305	₱947,568	₱15,380,233	₱736,005	₱2,156,962	₱62,738,974

**At gross amount but net of unearned discounts*

	AA	A	BBB and Below	Total
Due from other banks	₱446,386	₱683,771	₱1,213,766	₱2,343,923
Interbank loans receivable	49,720	260,411	–	310,131
Financial assets at FVTPL:				
Government securities	–	–	188,014	188,014
Private bonds	–	–	112,469	112,469
Investment securities at amortized cost:				
Government securities	–	–	11,510,454	11,510,454
Private bonds	–	–	1,625,040	1,625,040
Equity securities at FVTOCI:				
Quoted	–	–	40,935	40,935
Unquoted	–	–	11,307	11,307
	₱496,106	₱944,182	₱14,701,985	₱16,142,273

	Consolidated						
	2015						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	₱11,909,774	₱–	₱–	₱11,909,774
Due from other banks	145,503	155,671	335,982	–	–	–	637,156
	145,503	155,671	335,982	11,909,774	–	–	12,546,930
Loans and receivables:							
Receivables from customers*:							
Corporate	22,167,753	1,687,393	228,258	–	61,502	1,166,414	25,311,320
Consumer	6,477,108	17,696	686,738	–	471,081	44,124	7,696,747
Unquoted debt securities	2,383,709	–	–	1,559,965	–	–	3,943,674
Accrued interest receivable	318,771	4,105	13,380	–	15,423	355,566	707,245
Accounts receivable	–	167,316	114,139	543,041	–	–	824,496

(Forward)

	Consolidated						
	2015						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Sales contracts receivable	₱2,008	₱144,358	₱23,145	₱–	₱17,155	₱–	₱186,666
RCOCI	–	–	31,696	–	–	–	31,696
Refundable security deposits	–	–	41,006	–	–	–	41,006
	31,349,349	2,020,868	1,138,362	2,103,006	565,161	1,566,104	38,742,850
Total	₱31,494,852	₱2,176,539	₱1,474,344	₱14,012,780	₱565,161	₱1,566,104	₱51,289,780

**At gross amount but net of unearned discounts*

	AA	A	BBB and Below	Total
Due from other banks	₱17,226	₱775,333	₱578,807	₱1,371,366
Interbank loans receivable	229,281	–	–	229,281
Financial assets at FVTPL:				
Private bonds	–	–	395,258	395,258
Investment securities at amortized cost:				
Government securities	–	–	12,274,555	12,274,555
Private bonds	–	–	2,193,835	2,193,835
Equity securities at FVTOCI:				
Quoted	–	–	33,145	33,145
Unquoted	–	–	11,307	11,307
	₱246,507	₱775,333	₱15,486,907	₱16,508,747

	Parent Company						
	2016						
	Neither Past Due nor Impaired						
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Past Due But Not Impaired**	**Past Due and Impaired**	**Total**
Due from BSP	**₱–**	**₱–**	**₱–**	**₱13,276,681**	**₱–**	**₱–**	**₱13,276,681**
Due from other banks	**20,837**	**4,312**	**262,425**	**–**	**–**	**–**	**287,574**
	20,837	**4,312**	**262,425**	**13,276,681**	**–**	**–**	**13,564,255**
Loans and receivables:							
Receivables from customers*:							
Corporate	**29,837,461**	**2,737,701**	**8,274**	**–**	**6,189**	**1,662,119**	**34,251,744**
Consumer	**6,664,113**	**119,597**	**493,735**	**–**	**573,659**	**–**	**7,851,104**
Unquoted debt securities	**1,606,323**	**–**	**–**	**1,551,050**	**–**	**–**	**3,157,373**
Accrued interest receivable	**147,480**	**15,913**	**73**	**113,773**	**14,342**	**456,639**	**748,220**
Accounts receivable	**–**	**228,281**	**99,856**	**425,678**	**–**	**–**	**753,815**
Sales contracts receivable	**–**	**142,597**	**9,255**	**–**	**15,556**	**–**	**167,408**
RCOCI	**–**	**–**	**2,406**	**–**	**–**	**–**	**2,406**
Refundable security deposits	**–**	**–**	**28,449**	**–**	**–**	**–**	**28,449**
	38,255,377	**3,244,089**	**642,048**	**2,090,501**	**609,746**	**2,118,758**	**46,960,519**
Total	**₱38,276,214**	**₱3,248,401**	**₱904,473**	**₱15,367,182**	**₱609,746**	**₱2,118,758**	**₱60,524,774**

**At gross amount but net of unearned discounts*

	AA	**A**	**BBB and Below**	**Total**
Due from other banks	**₱446,386**	**₱683,771**	**₱1,213,766**	**₱2,343,923**
Interbank loans receivable	**49,720**	**260,411**	**–**	**310,131**
Financial assets at FVTPL:				
Government securities	**–**	**–**	**188,014**	**188,014**
Private bonds	**–**	**–**	**112,469**	**112,469**
Investment securities at amortized cost:				
Government securities	**–**	**–**	**11,510,454**	**11,510,454**
Private bonds	**–**	**–**	**1,625,040**	**1,625,040**
Equity securities at FVTOCI:				
Quoted	**–**	**–**	**40,935**	**40,935**
Unquoted	**–**	**–**	**11,307**	**11,307**
	₱496,106	**₱944,182**	**₱14,701,985**	**₱16,142,273**

	Parent Company						
	2015						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Due from BSP	₱–	₱–	₱–	11,839,461	₱–	₱–	₱11,839,461
Due from other banks	145,503	121,072	148,651	–	–	–	415,226
	145,503	121,072	148,651	11,839,461	–	–	12,254,687
Loans and receivables:							
Receivables from customers*:							
Corporate	22,167,753	1,687,393	228,258	–	61,502	1,166,414	25,311,320
Consumer	4,776,947	3,655	686,738	–	458,375	–	5,925,715
Unquoted debt securities	2,383,709	–	–	1,559,965	–	–	3,943,674
Accrued interest receivable	303,848	4,105	13,108	–	6,307	355,566	682,934
Accounts receivable	–	169,934	114,139	543,041	–	–	827,114
Sales contracts receivable	–	143,354	11,888	–	17,155	–	172,397
RCOCI	–	–	31,696	–	–	–	31,696
Refundable security deposits	–	–	41,006	–	–	–	41,006
	29,632,257	2,008,441	1,126,833	2,103,006	543,339	1,521,980	36,935,856
Total	₱29,777,760	₱2,129,513	₱1,275,484	₱13,942,467	₱543,339	₱1,521,980	₱49,190,543

***At gross amount but net of unearned discounts*

	AA	A	BBB and Below	Total
Due from other banks	₱17,226	₱775,333	₱578,807	₱1,371,366
Interbank loans receivable	229,281	–	–	229,281
Financial assets at FVTPL:				
Private bonds	–	–	395,258	395,258
Investment securities at amortized cost:				
Government securities	–	–	12,274,555	12,274,555
Private bonds	–	–	2,193,835	2,193,835
Equity securities at FVTOCI:				
Quoted	–	–	33,145	33,145
Unquoted	–	–	11,307	11,307
	₱246,507	₱775,333	₱15,486,907	₱16,508,747

As of December 31, 2016 and 2015, restructured loans by the Group which are neither past due nor impaired are as follow:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Receivables from customers:				
Corporate	**₱95,886**	₱41,007	**₱95,886**	₱41,007
Consumer	**15,003**	4,009	**10,777**	3,655

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: specific or individually assessed allowances and collectively assessed allowances.

Specific impairment testing

Accounts that are subjected to specific impairment are those individually significant and with objective evidence of impairment. Indicators of impairment include the following conditions/ events: account is equivalent to the Parent Company's internal credit risk rating of 11 to 14, with past due interest and/or principal payments and adverse changes in industry conditions that affect the borrower.

Net recoverable amount is the total cash inflows to be collected over the entire term of the loan, which may be based on an agreed restructuring agreement, rehabilitation plan or expected proceeds from the foreclosing and sale of the collateral. Upon determining the forecast of expected net cash flows, the present value of the net expected cash flows from the asset is determined using the original EIR.

Collective impairment testing
Accounts that are not individually significant and have no objective evidence of impairment are grouped based on similar credit risk characteristics and are collectively assessed for impairment.

a. *Collective impairment - corporate accounts*
For the purpose of collective impairment assessment, corporate accounts are grouped on the basis of the economic activity of the borrower. Impairment loss is derived by multiplying the outstanding loan balance against a loss rate. The loss rate, which estimates the incurred loss from the credit exposure, is the product of the Probability of Default Rate (PD) and the Loss Given Default Rate (LGD). PD is estimated based on the three-year historical average default experience of the Parent Company, while, LGD is estimated based on loss experience for the same reference period.

b. *Collective impairment - consumer accounts*
Receivables from consumer loans are assessed for impairment collectively because these receivables are not individually significant. Accounts are grouped by type of product - personal loans, home loans and auto loans. The allowance for credit losses is determined based on the net flow rate methodology. This methodology relies on the historical data of net flow tables to establish a percentage ('net flow rate') of receivables that are current or in any state of delinquency (that is, 30, 60, 90, 120, 150 and 180 days past due) as of the statement of financial position date. The gross provision is then computed based on the outstanding balances of these receivables from consumer loans as of the statement of financial position date and the net flow rates determined for the current and each delinquency bucket. These rates are based on the Group's historical experience, which covers a minimum of three-year cycle.

Aging analysis of past due but not impaired loans per class of financial assets
Aging analysis of past due but not impaired financial assets are shown below:

	Consolidated					
	2016					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	**₱6,163**	**₱26**	**₱–**	**₱–**	**₱–**	**₱6,189**
Consumer loans	**357,736**	**221,380**	**61,358**	**57,855**	**–**	**698,329**
Accrued interest receivable	**5,674**	**7,891**	**1**	**776**	**–**	**14,342**
Sales contracts receivable	**1,589**	**163**	**2,404**	**256**	**12,733**	**17,145**
	₱371,162	**₱229,460**	**₱63,763**	**₱58,887**	**₱12,733**	**₱736,005**

	Consolidated 2015					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱54,892	₱6,610	₱–	₱–	₱–	₱61,502
Consumer loans	245,116	225,965	–	–	–	471,081
Accrued interest receivable	10,665	4,758	–	–	–	15,423
Sales contracts receivable	7,977	1,145	5,338	2,695	–	17,155
	₱318,650	₱238,478	₱5,338	₱2,695	₱–	₱565,161

	Parent Company 2016					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Greater than 1 Year**	**Total**
Receivables from customers:						
Corporate loans	**₱6,163**	**₱26**	**₱–**	**₱–**	**₱–**	**₱6,189**
Consumer loans	**352,279**	**221,380**	**–**	**–**	**–**	**573,659**
Accrued interest receivable	**5,674**	**7,891**	**1**	**776**	**–**	**14,342**
Sales contracts receivable	**–**	**162**	**2,404**	**256**	**12,734**	**15,556**
	₱364,116	**₱229,459**	**₱2,405**	**₱1,032**	**₱12,734**	**₱609,746**

	Parent Company 2015					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱54,892	₱6,610	₱–	₱–	₱–	₱61,502
Consumer loans	245,116	213,259	–	–	–	458,375
Accrued interest receivable	3,258	3,049	–	–	–	6,307
Sales contracts receivable	7,977	1,145	5,338	2,695	–	17,155
	₱311,243	₱224,063	₱5,338	₱2,695	₱–	₱543,339

Total credit risk exposure

The tables below show the different credit risk exposures of the Group and of the Parent Company by risk weight applied in accordance with BSP Circular No. 538:

	Consolidated 2016						
	Net	**Risk Weights**[(b)]					
	Exposures[(a)]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[(c)]	**₱83,757**	**₱24,727**	**₱774**	**₱5,632**	**₱65**	**₱51,604**	**₱955**
Credit risk weighted on-balance sheet assets (d = b x c)	**56,057**	**–**	**155**	**2,816**	**49**	**51,604**	**1,433**
Off-balance sheet assets[(e)]	**11,105**	**7,245**	**1,637**	**–**	**–**	**2,223**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**2,550**	**–**	**327**	**–**	**–**	**2,223**	**–**
Banking Book[(g)]	**592**	**–**	**–**	**–**	**–**	**592**	**–**
Counter party risk-weighted assets in Banking Books (h = b x g)	**592**	**–**	**–**	**–**	**–**	**592**	**–**
Total Credit Risk Weighted Assets[(d + f + h)]	**₱59,199**	**₱–**	**₱482**	**₱2,816**	**₱49**	**₱54,419**	**₱1,433**

(a) *Net of specific provisions*

	Consolidated						
	2015						
	Net	Risk Weights(b)					
	Exposures(a)	0%	20%	50%	75%	100%	150%
On-balance sheet assets(c)	₱74,712	₱24,609	₱255	₱5,235	₱74	₱43,529	₱1,010
Credit risk weighted on-balance sheet assets (d = b x c)	47,769	–	51	2,618	56	43,529	1,515
Off-balance sheet assets(e)	9,207	6,483	964	–	–	1,760	–
Credit risk weighted off-balance sheet assets (f = b x e)	1,953	–	193	–	–	1,760	–
Banking Book(g)	19	–	–	19	–	–	–
Counter party risk-weighted assets in Banking Books (h = b x g)	9	–	–	9	–	–	–
Total Credit Risk Weighted Assets(d + f + h)	₱49,731	₱–	₱244	₱2,627	₱56	₱45,289	₱1,515

(a) Net of specific provisions

	Parent Company						
	2016						
	Net	**Risk Weights(b)**					
	Exposures(a)	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets(c)	**₱81,376**	**₱24,625**	**₱766**	**₱5,632**	**₱–**	**₱49,494**	**₱859**
Credit risk weighted on-balance sheet assets (d = b x c)	**53,752**	**–**	**153**	**2,816**	**–**	**49,494**	**1,289**
Off-balance sheet assets(e)	**11,105**	**7,245**	**1,637**	**–**	**–**	**2,223**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**2,550**	**–**	**327**	**–**	**–**	**2,223**	**–**
Banking Book(g)	**593**	**–**	**–**	**–**	**–**	**593**	**–**
Counter party risk-weighted assets in Banking Books (h = b x g)	**593**	**–**	**–**	**–**	**–**	**593**	**–**
Total Credit Risk Weighted Assets(d + f + h)	**₱56,895**	**₱–**	**₱480**	**₱2,816**	**₱–**	**₱52,310**	**₱1,289**

(a) Net of specific provisions

	Parent Company						
	2015						
	Net	Risk Weights(b)					
	Exposures(a)	0%	20%	50%	75%	100%	150%
On-balance sheet assets(c)	₱72,375	₱24,510	₱251	₱5,235	₱–	₱41,466	₱913
Credit risk weighted on-balance sheet assets (d = b x c)	45,503	–	50	2,617	–	41,466	1,370
Off-balance sheet assets(e)	9,207	6,483	964	–	–	1,760	–
Credit risk weighted off-balance sheet assets (f = b x e)	1,953	–	193	–	–	1,760	–
Banking Book(g)	19	–	–	19	–	–	–
Counter party risk-weighted assets in Banking Books (h = b x g)	9	–	–	9	–	–	–
Total Credit Risk Weighted Assets(d + f + h)	₱47,465	₱–	₱243	₱2,626	₱–	₱43,226	₱1,370

(a) Net of specific provisions

Liquidity Risk and Funding Management
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. In addition, the Group makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Group's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The ALCO meets twice every month to discuss among others the liquidity state of the Group.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the BSP equal to 20.00% of customer deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

In managing intraday liquidity, the Parent Company has an internal buffer fund called "Secondary Reserve" for Deposit Liabilities, Deposit Substitutes, and Repurchase Agreements. The buffer fund serves to manage potential substantial liability outflows and the demand and supply of funds for new loans. This will allow the Parent Company to readily support its new business strategies and direction and management of liquidity risk. The daily movement of Secondary Reserve serves as a primary indicator of liquidity condition of the Parent Company. In addition, the Parent Company monitors the liquidity characteristics of its portfolio of assets that will provide necessary liquidity support during periods of liquidity stress as required by BSP Circular No. 905.

Analysis of financial instruments by remaining contractual maturities
The tables below summarize the maturity profile of the Group's and the Parent Company's financial instruments as of December 31, 2016 and 2015, based on undiscounted contractual payments except for financial assets at FVTPL. Repayments which are subject to notice are treated as if notices are to be given immediately. However, the Group and the Parent Company expect that many customers will not request repayment on the earliest date the Group and the Parent Company could be required to pay and the table does not reflect the expected cash flows indicated by the Group's and the Parent Company's deposit retention history (amounts in millions):

	Consolidated					
	2016					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	₱–	₱300	₱–	₱–	₱–	₱300
Investment securities at amortized cost:						
Government securities	–	214	434	1,153	16,169	17,970
Private bonds	–	23	51	65	1,921	2,060

(Forward)

	Consolidated					
	2016					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Loans and receivables:						
Due from BSP	**₱13,356**	**₱–**	**₱–**	**₱–**	**₱–**	**₱13,356**
Due from other banks	**90**	**2,906**	**1**	**–**	**–**	**2,997**
Interbank loans receivable and SPURA	**–**	**260**	**50**	**–**	**–**	**310**
Receivables from customers:						
Corporate	**1,544**	**15,351**	**8,460**	**1,021**	**11,334**	**37,710**
Consumer	**1,619**	**516**	**1,632**	**2,777**	**7,666**	**14,210**
	₱16,609	**₱19,570**	**₱10,628**	**₱5,016**	**₱37,090**	**₱88,913**
Financial liabilities						
Deposit liabilities:						
Demand	**₱15,464**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,464**
Savings	**6,944**	**–**	**–**	**–**	**–**	**6,944**
Time	**20**	**33,303**	**2,130**	**3,747**	**2,077**	**41,277**
Bills payable:						
Private firms and individuals	**–**	**10,026**	**85**	**–**	**–**	**10,111**
Banks and other financial institutions	**–**	**–**	**8**	**–**	**–**	**8**
Outstanding acceptances	**34**	**–**	**–**	**–**	**–**	**34**
Manager's checks	**300**	**–**	**–**	**–**	**–**	**300**
Accrued interest payable	**18**	**54**	**3**	**–**	**–**	**75**
Accrued other expenses	**16**	**245**	**–**	**–**	**–**	**261**
Other liabilities:						
Accounts payable	**196**	**–**	**–**	**–**	**–**	**196**
Refundable security deposits	**–**	**–**	**29**	**–**	**111**	**140**
Due to the Treasurer of the Philippines	**–**	**24**	**–**	**–**	**–**	**24**
	₱22,992	**₱43,652**	**₱2,255**	**₱3,747**	**₱2,188**	**₱74,834**

**Including non-performing loans and receivables*

	Consolidated					
	2015					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱395	₱–	₱–	₱–	₱395
Investment securities at amortized cost:						
Government securities	–	173	4,926	5,159	18,533	28,791
Private bonds	–	36	589	932	2,801	4,358
Loans and receivables:						
Due from BSP	11,910	–	–	–	–	11,910
Due from other banks	–	2,009	–	–	–	2,009
Interbank loans receivable and SPURA	–	229	–	–	–	229
Receivables from customers:						
Corporate	1,538	11,819	6,260	404	7,575	27,596
Consumer	521	256	1,285	1,954	7,714	11,730
	₱13,969	₱14,917	₱13,060	₱8,449	₱36,623	₱87,018

(Forward)

	Consolidated					
	2015					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial liabilities						
Deposit liabilities:						
Demand	₱12,523	₱–	₱–	₱–	₱–	₱12,523
Savings	5,055	–	–	–	–	5,055
Time	44	33,841	3,673	211	3,665	41,434
Bills payable:						
Private firms and individuals	–	6,007	107	–	–	6,114
Banks and other financial institutions	–	–	465	–	–	465
Outstanding acceptances	42	–	–	–	–	42
Manager's checks	109	–	–	–	–	109
Accrued interest payable	–	64	30	–	4	98
Accrued other expenses	–	288	–	–	–	288
Other liabilities:						
Accounts payable	273	–	–	–	–	273
Refundable security deposits	–	1	25	34	48	108
Due to the Treasurer of the Philippines	–	25	–	–	–	25
	₱18,046	₱40,226	₱4,300	₱245	₱3,717	₱66,534

**Including non-performing loans and receivables*

	Parent Company					
	2016					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱–**	**₱300**	**₱–**	**₱–**	**₱–**	**₱300**
Investment securities at amortized cost:						
Government securities	**–**	**214**	**434**	**1,153**	**16,169**	**17,970**
Private bonds	**–**	**23**	**51**	**65**	**1,921**	**2,060**
Loans and receivables:						
Due from BSP	**13,276**	**–**	**–**	**–**	**–**	**13,276**
Due from other banks	**–**	**2,631**	**–**	**–**	**–**	**2,631**
Interbank loans receivable and SPURA	**–**	**260**	**50**	**–**	**–**	**310**
Receivables from customers:						
Corporate	**1,544**	**15,351**	**8,460**	**1,021**	**11,334**	**37,710**
Consumer	**1,248**	**255**	**946**	**1,542**	**7,666**	**11,657**
	₱16,068	**₱19,034**	**₱9,941**	**₱3,781**	**₱37,090**	**₱85,914**
Financial liabilities						
Deposit liabilities:						
Demand	**₱15,572**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,572**
Savings	**6,400**	**–**	**–**	**–**	**–**	**6,400**
Time	**2**	**32,534**	**1,904**	**3,149**	**2,077**	**39,666**
Bills payable:						
Private firms and individuals	**–**	**10,026**	**85**	**–**	**–**	**10,111**
Banks and other financial institutions	**–**	**–**	**8**	**–**	**–**	**8**
Outstanding acceptances	**34**	**–**	**–**	**–**	**–**	**34**
Manager's checks	**300**	**–**	**–**	**–**	**–**	**300**
Accruexd interest payable	**–**	**50**	**2**	**3**	**3**	**58**
Accrued other expenses	**–**	**256**	**–**	**–**	**–**	**256**

(Forward)

	Parent Company					
	2016					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Other liabilities:						
Accounts payable	**₱182**	**₱–**	**₱–**	**₱–**	**₱–**	**₱182**
Refundable security deposits	**–**	**–**	**29**	**–**	**111**	**140**
Due to the Treasurer of the Philippines	**–**	**24**	**–**	**–**	**–**	**24**
	₱22,490	**₱42,890**	**₱2,028**	**₱3,152**	**₱2,191**	**₱72,751**

**Including non-performing loans and receivables*

	Parent Company					
	2015					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱395	₱–	₱–	₱–	₱395
Investment securities at amortized cost:						
Government securities	–	173	4,926	5,159	18,533	28,791
Private bonds	–	36	589	932	2,801	4,358
Loans and receivables:						
Due from BSP	11,839	–	–	–	–	11,839
Due from other banks	–	1,787	–	–	–	1,787
Interbank loans receivable and SPURA	–	229	–	–	–	229
Receivables from customers:						
Corporate	1,538	11,819	6,260	404	7,575	27,596
Consumer	191	35	487	1,408	7,066	9,187
	₱13,568	₱14,474	₱12,262	₱7,903	₱35,975	₱84,182
Financial liabilities						
Deposit liabilities:						
Demand	₱12,611	₱–	₱–	₱–	₱–	₱12,611
Savings	4,508	–	–	–	–	4,508
Time	43	33,347	2,743	211	3,665	40,009
Bills payable:						
Private firms and individuals	–	6,007	107	–	–	6,114
Banks and other financial institutions	–	–	277	–	–	277
Outstanding acceptances	42	–	–	–	–	42
Manager's checks	109	–	–	–	–	109
Accrued interest payable	–	64	10	–	4	78
Accrued other expenses	–	277	–	–	–	277
Other liabilities:						
Accounts payable	269	–	–	–	–	269
Refundable security deposits	–	1	25	34	48	108
Due to the Treasurer of the Philippines	–	24	–	–	–	24
	₱17,582	₱39,720	₱3,162	₱245	₱3,717	₱64,426

**Including non-performing loans and receivables*

The tables below show the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2016 and 2015 (amounts in millions):

	2016				
	On Demand	**Less than 3 Months**	**3 to12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱1,596**	**₱170**	**₱457**	**₱–**	**₱2,223**
Sight LC outstanding	**269**	**9**	**–**	**–**	**278**
Usance LC outstanding	**16**	**96**	**5**	**–**	**117**
Outstanding shipping guarantees	**1,241**	**–**	**–**	**–**	**1,241**
	₱3,122	**₱275**	**₱462**	**₱–**	**₱3,859**

	2015				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Unused Commercial LC:					
Standby LC	₱43	₱229	₱1,488	₱–	₱1,760
Sight LC outstanding	368	2	–	–	370
Usance LC outstanding	46	26	3	–	75
Outstanding shipping guarantees	5	1	503	–	509
	₱462	₱258	₱1,994	₱–	₱2,714

Market Risk Management

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. The Group's market risk originates from the Parent Company's holdings of foreign exchange instruments, debt securities, equity securities and derivatives.

Value-at-Risk (VaR)

VaR is a statistical estimate of potential loss given prevailing market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, a given "confidence level" over a specified time horizon. VaR is used to alert senior management whenever the potential for losses in the Parent Company's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Parent Company's risk philosophy and appetite.

In April 2014, the Parent Company commenced using Bloomberg's Portfolio VaR (PORT) module in its VaR computation. Bloomberg's PORT run on a Parametric VaR model whose data set contains one year of historical prices and a daily update of its variance/covariance matrix. In accordance with BSP standards, the Parent Company uses a 99.00% confidence level and a 10-day defeasance period. This means, that statistically, the Parent Company's losses on trading operations will exceed VaR on at least 1 out of 100 trading business days.

The Market and Liquidity Risk Management Unit (MLRMU) runs VaR on a daily basis, monitors the VaR against the BOD approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Treasury Operations Division performs quarterly back testing to examines how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the head of Treasury Operations Division. Exceptions, if any, are reported to the ROC and the BOD.

Starting February 2015, changes were made in the VaR computation for USD ROPs to take into account foreign currency risk between US dollar and Peso.

A summary of the VaR position of USD fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate and Foreign Exchange		Interest Rate
	USD Bonds from January to December 2016 (in ₱ millions)	USD Bonds from February to December 2015 (in ₱ millions)	USD Bonds for January 2015 (In USD millions)
31 December	**4.11**	128.66	–
Average Daily	**62.87**	116.45	2.22
Highest	**284.65**	151.15	2.45
Lowest	**4.05**	84.42	1.95

A summary of the VaR position of Peso fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate	
	Peso Bonds 2016 (in ₱ millions)	Peso Bonds 2015 (in ₱ millions)
31 December	**11.91**	–
Average Daily	**60.73**	32.72
Highest	**201.77**	50.39
Lowest	**2.55**	5.25

Stress testing

Since VaR is designed to describe risk in normal market conditions (that is, 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. Stress testing is done to address extreme market conditions.

The Parent Company performs stress testing on its foreign currency trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Parent Company’s portfolio actually lie.

This helps the Parent Company evaluate its tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, these provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Parent Company’s Market & Liquidity Risk Manager performs the stress testing of traded securities using uniform set of market stress shocks as prescribed by the BSP under their

Uniform Stress Testing Program for Banks. The stress testing is conducted semi-anually and its results are reported to the ROC and BOD.

To identify possible episodes of stress in the domestic financial market, MLRMU employs the Citi Early Warning Signal Risk Index – Philippines that measures stress in economic and financial variables with a view of predicting weakness in local currencies. A reading above 0.5 means that stress is above average and a reading below 0.5 means that stress is below average. The risk index level is reported monthly to ALCO and quarterly to ROC.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Group follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. As of December 31, 2016 and 2015, 63.75% and 65.53%, respectively, of the Group's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the transfer pool rate that reflects the Group's internal cost of funds. As a result of these factors, the Group's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Group, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. Interest is paid on substantial portion of demand accounts which constituted 25.44% and 22.30%, respectively, of total deposits of the Group as of December 31, 2016 and 2015, respectively, and pays a variable interest rate of 0.10% to 0.50% and fixed rate of 0.10%. Rates on savings accounts and time deposit accounts, which constituted 10.47% and 64.09%, respectively, of total deposits as of December 31, 2016 and 7.97% and 69.73%, respectively, of total deposits as of December 31, 2015 are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following table provides for the average EIR by period of maturity or repricing of the Group as of December 31, 2016 and 2015:

	2016			2015		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**1.15%**	–	–	0.38%	–	–
Interbank loans	**0.88%**	–	–	3.28%	–	–
Loans and receivables	**20.12%**	**21.17%**	**17.89%**	17.75%	19.92%	19.77%
Peso-denominated liabilities						
Deposit liabilities	**1.12%**	**1.68%**	**5.46%**	1.10%	0.85%	3.41%
Bills payable	**1.91%**	**1.74%**	–	1.98%	2.01%	

(Forward)

	2016			2015		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Foreign currency-denominated assets						
Due from banks	**0.18%**	–	–	0.18%	–	–
Interbank loans	**0.40%**	–	–	0.05%	–	–
Loans and receivables	**5.64%**	**5.68%**	**4.49%**	5.80%	4.71%	0.00%
Foreign currency-denominated liabilities						
Deposit liabilities	**0.87%**	**1.46%**	**2.37%**	1.30%	1.08%	2.28%
Bills payable	–	–	–	1.11%	–	–

The following table provides for the average EIR by period of maturity or repricing of the Parent Company as of December 31, 2016 and 2015:

	2016			2015		
	Less than 3 Months	**Less than 3 Months**	**Less than 3 Months**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.38%**	–	–	0.38%	–	–
Interbank loans	**0.88%**	–	–	3.28%	–	–
Loans and receivables	**13.75%**	**25.12%**	**21.75%**	12.33%	25.83%	26.82%
Peso-denominated liabilities						
Deposit liabilities	**0.80%**	**0.87%**	**3.41%**	1.10%	0.85%	3.41%
Bills payable	**1.91%**	**1.74%**	–	1.98%	2.01%	–
Foreign currency-denominated assets						
Due from banks	**0.18%**	–	–	0.18%	–	–
Interbank loans	**0.40%**	–	–	0.05%	–	–
Loans and receivables	**5.64%**	**5.68%**	**4.49%**	5.80%	4.71%	–
Foreign currency-denominated liabilities						
Deposit liabilities	**0.87%**	**1.46%**	**2.37%**	1.30%	1.08%	2.28%
Bills payable	–	–	–	1.11%	–	–

The Group also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Group's interest-related income and expenses.

The method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Group with a measure of the impact of changes in interest rates on the actual portfolio, that is, the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following tables set forth the asset-liability gap position of the Group and the Parent Company as of December 31, 2016 and 2015 (amounts in millions):

	Consolidated					
	2016					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱2,997**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,997**
Interbank loans receivable	**260**	**–**	**50**	**–**	**–**	**310**
Financial assets at FVTPL	**–**	**–**	**–**	**–**	**300**	**300**
Investment securities at amortized cost	**–**	**20**	**49**	**412**	**12,654**	**13,135**
Loans and receivables	**9,115**	**9,101**	**8,114**	**1,337**	**18,422**	**46,089**
	12,372	**9,121**	**8,213**	**1,749**	**31,376**	**62,831**
Liabilities						
Deposit liabilities	**47,242**	**8,400**	**1,998**	**3,007**	**2,499**	**63,146**
Bills payable	**–**	**10,015**	**84**	**–**	**–**	**10,099**
	47,242	**18,415**	**2,082**	**3,007**	**2,499**	**73,245**
Asset-liability gap	**(₱34,870)**	**(₱9,294)**	**₱6,131**	**(₱1,258)**	**₱28,877**	**(₱10,414)**

	Consolidated					
	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱2,009	₱–	₱–	₱–	₱–	₱2,009
Interbank loans receivable	229	–	–	–	–	229
Financial assets at FVTPL	395	–	–	–	–	395
Investment securities at amortized cost	–	–	255	–	14,213	14,468
Loans and receivables	4,266	3,517	8,721	5,771	14,227	36,502
	6,899	3,517	8,976	5,771	28,440	53,603
Liabilities						
Deposit liabilities	38,685	12,227	3,157	148	4,085	58,302
Bills payable	4,512	1,215	755	–	–	6,482
	43,197	13,442	3,912	148	4,085	64,784
Asset-liability gap	(₱36,298)	(₱9,925)	₱5,064	₱5,623	₱24,355	(₱11,181)

	Parent Company					
	2016					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱2,631**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,631**
Interbank loans receivable	**260**	**–**	**50**	**–**	**–**	**310**

(Forward)

	Parent Company					
	2016					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Financial assets at FVTPL	**₱–**	**₱–**	**₱–**	**₱–**	**₱300**	**₱300**
Investment securities at amortized cost	**–**	**20**	**49**	**412**	**12,654**	**13,135**
Loans and receivables	**8,714**	**9,093**	**7,952**	**1,223**	**17,322**	**44,304**
	11,605	**9,113**	**8,051**	**1,635**	**30,276**	**60,680**
Liabilities						
Deposit liabilities	**46,383**	**8,061**	**1,771**	**2,967**	**2,017**	**61,199**
Bills payable	**–**	**10,015**	**84**	**–**	**–**	**10,099**
	46,383	**18,076**	**1,855**	**2,967**	**2,017**	**71,298**
Asset-liability gap	**(₱34,778)**	**(₱8,963)**	**₱6,196**	**(₱1,332)**	**₱28,259**	**(₱10,618)**

	Parent Company					
	2015					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱1,787	₱–	₱–	₱–	₱–	₱1,787
Interbank loans receivable	229	–	–	–	–	229
Financial assets at FVTPL	395	–	–	–	–	395
Investment securities at amortized cost	–	–	255	–	14,213	14,468
Loans and receivables	3,916	5,813	6,006	1,479	17,415	34,629
	6,327	5,813	6,261	1,479	31,628	51,508
Liabilities						
Deposit liabilities	37,959	11,811	2,982	130	3,674	56,556
Bills payable	4,512	1,213	572	–	–	6,297
	42,471	13,024	3,554	130	3,674	62,853
Asset-liability gap	(₱36,144)	(₱7,211)	₱2,707	₱1,349	₱27,954	(₱11,345)

The following tables demonstrate the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant (amounts in millions):

	2016			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**(₱114.44)**	**₱114.44**	**(₱228.87)**	**₱228.87**

	2015			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	(₱107.50)	₱107.50	(₱215.01)	₱215.01

The table below shows the Group's and the Parent Company's different market risk-weighted assets using the standardized approach in accordance with BSP Circular No. 538:

Type of Market Risk Exposure	**2016**	2015
Interest rate exposures	**₱248,411**	₱580,535
Foreign exchange exposures	**296,862**	34,476
	₱545,273	₱615,011

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs.

The Parent Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Parent Company is engaged in.

The ERMG uses VaR, Foreign Exchange Sensitivity Testing, and Foreign Exchange Stress Testing to measure risk inherent to the Parent Company's foreign currency net exposures. In assessing the foreign currency risk, the Parent Company employs a pre-defined key risk indicator under Market Risk Assessment Matrix to determine the level of risk (for example, Low Risk, Moderate Risk, High Risk) the results of which are reported to the ROC on a quarterly basis.

The table summarizes the Group's and Parent Company's exposure to foreign exchange risk as of December 31, 2016 and 2015. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by currency (amounts in Peso equivalent):

	2016			2015		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
Cash on hand	**₱4,024**	**₱–**	**₱4,024**	₱–	₱–	₱–
Loans and receivables:						
Due from other banks	**4,770**	**2,484**	**7,254**	₱120,034	₱9,691	₱129,725
Interbank loans receivable and SPURA	**49,720**	**–**	**49,720**	–	–	–
Corporate loans	**148,659**	**4,430**	**153,089**	294,710	1,479	296,189
Accrued interest receivable	**471**	**–**	**471**	695	–	695
Other assets	**2,885**	**112**	**2,997**	1,036	111	1,147
	210,529	**7,026**	**217,555**	416,475	11,281	427,756

(Forward)

	2016			2015		
	USD	**Others***	**Total**	USD	Others*	Total
Liabilities						
Outstanding acceptances	**₱29,926**	**₱4,430**	**₱34,356**	₱40,586	₱1,479	₱42,065
Other liabilities:						
Others	**71**	**–**	**71**	33,753	281	34,034
	29,997	**4,430**	**34,427**	74,339	1,760	76,099
Net exposure	**₱180,532**	**₱2,596**	**₱183,128**	₱342,136	₱9,521	₱351,657

**Includes Euro, Australian Dollar, Japanese Yen, Swiss Franc, Canadian Dollar, Singapore Dollar*

The tables below indicate the exposure of the Group (excluding the Parent Company's FCDU) to USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the base currency rate against the USD, with all other variables held constant, on the statement of income and statement of comprehensive income. A negative amount in the tables reflects a potential net reduction in income or comprehensive income, while a positive amount reflects a potential net increase. The Group's exposure in currencies other than USD is minimal.

	2016			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱9,162**	**(₱9,162)**	**₱12,216**	**(₱12,216)**

	2015			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱10,264	(₱10,264)	₱13,685	(₱13,685)

As of December 31, 2016 and 2015, there is no impact on the Group's OCI other than those already affecting profit or loss.

Equity Price Risk Management

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Parent Company holds a minimal amount of equity securities, hence, any changes to equity prices are deemed to not significantly affect its financial performance.

Operational Risk

The Group uses the Basic Indicator Approach in computing Operational Risk in accordance with BSP Circular No. 538 (amounts in millions):

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Average Gross Income (Previous 3 Years)	**₱2,957**	₱2,518	**₱2,835**	₱2,496
Capital Charge (Average Gross Income times 18.75%[(a)])	**554**	472	**532**	468
Risk Weighted Asset (Capital Charge times 10)	**₱5,544**	₱4,720	**₱5,315**	₱4,681

(a) Equivalent to adjusted capital charge of 15% of 125% to be consistent with required minimum Capital Adequacy Ratio of 10%

6. **Segment Information**

The Group's 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. The Group's business segments are as follow:

Branch Banking Group (formerly Prosperity Banking Segment) - principally handling individual customers' deposits, and providing overdrafts and fund transfer facilities;

Corporate Banking Group (formerly Enterprise Banking) - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Treasury Segment - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking;

Consumer Finance Segment (formerly Convenience Banking Segment) - principally providing consumer type loans, that is, Home, Auto and Personal Loans; and

Trust and Wealth Management Segment (formerly Trust Group) - principally engaging in trust and other fiduciary business and performing investment management services and also functions as Trustee or Investment Manager.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either is directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense. Included under Treasury is the income support earned by the Group from the FAA.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Group's total revenue in 2016, 2015, and 2014.

The Group's revenue-producing assets are located in one geographical location, which is the Philippines, therefore, geographical segment information is no longer presented.

For management purposes, business segment information provided to the Chief Operating Decision Maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS. The CODM is the Group's BOD.

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as of and for the years ended December 31, 2016, 2015 and 2014:

	Consolidated								
	2016								
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments	Total
Revenue									
Revenue, net of interest expense									
Third party	**(₱508,091)**	**₱1,783,190**	**₱452,916**	**₱1,202,744**	**₱1,363**	**₱234,329**	**₱3,166,451**	**₱40,177**	**₱3,206,628**
Intersegment	**1,152,228**	**(900,695)**	**(169,670)**	**(194,566)**	**(2,155)**	**114,858**	**–**	**–**	**–**
Other operating income	**14,345**	**6,316**	**5,178**	**24,933**	**16,987**	**563,876**	**631,635**	**213,508**	**845,143**
Total operating income	**658,482**	**888,811**	**288,424**	**1,033,111**	**16,195**	**913,063**	**3,798,086**	**253,685**	**4,051,771**
Compensation and fringe benefits	**295,514**	**77,682**	**50,776**	**216,894**	**11,368**	**505,531**	**1,157,765**	**23,408**	**1,181,173**
Taxes and licenses	**150,135**	**93,955**	**60,114**	**82,259**	**1,462**	**18,693**	**406,618**	**(147)**	**406,471**
Occupancy and other equipment-related costs	**174,420**	**8,439**	**835**	**25,768**	**1,108**	**(23,917)**	**186,653**	**(2,241)**	**184,412**
Depreciation and amortization	**134,990**	**3,102**	**2,154**	**45,003**	**1,347**	**275,905**	**462,501**	**(116,923)**	**345,578**
Provision for credit and impairment losses	**–**	**112,639**	**–**	**215,583**	**–**	**2,159**	**330,381**	**147,587**	**477,968**
Other operating expenses	**235,477**	**51,862**	**82,246**	**180,720**	**2,710**	**353,681**	**906,696**	**(85,228)**	**821,468**
Net operating income (loss)	**(₱332,054)**	**₱541,132**	**₱92,299**	**₱266,884**	**(₱1,800)**	**(₱218,989)**	**₱347,472**	**₱287,229**	**₱634,701**
Segment results									
Net interest income	**₱588,254**	**₱686,340**	**₱238,384**	**₱877,532**	**(₱792)**	**₱128,207**	**₱2,517,925**	**₱78,029**	**₱2,595,954**
Trading and securities gain - net	**–**	**–**	**44,774**	**–**	**–**	**201,571**	**246,345**	**(198,006)**	**48,339**
Rent income	**–**	**–**	**–**	**1,866**	**–**	**474,105**	**475,971**	**(1,758)**	**474,213**
Service charges, fees, and commissions	**55,883**	**196,154**	**88**	**130,645**	**–**	**19,409**	**402,179**	**(38,544)**	**363,635**
Foreign exchange gain - net	**–**	**–**	**11,474**	**–**	**–**	**–**	**11,474**	**–**	**11,474**
Profit from asset sold	**–**	**–**	**–**	**1,765**	**–**	**25,982**	**27,747**	**(35,063)**	**(7,316)**
Income from trust operations	**–**	**–**	**–**	**–**	**16,864**	**–**	**16,864**	**–**	**16,864**
Fair value gain from investment properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**286,404**	**286,404**
Gain on disposal of investment securities at amortized cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**198,700**	**198,700**
Gain on assets exchange	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,170**	**12,170**
Miscellaneous	**14,345**	**6,316**	**(6,296)**	**21,302**	**123**	**30,768**	**66,558**	**(15,224)**	**51,334**
Total operating income	**658,482**	**888,810**	**288,424**	**1,033,110**	**16,195**	**880,042**	**3,765,063**	**286,708**	**4,051,771**
Compensation and fringe benefits	**295,514**	**77,682**	**50,776**	**216,894**	**11,368**	**505,531**	**1,157,765**	**23,408**	**1,181,173**
Taxes and licenses	**150,135**	**93,955**	**60,114**	**82,259**	**1,462**	**18,693**	**406,618**	**(147)**	**406,471**
Occupancy and other equipment-related costs	**174,420**	**8,439**	**835**	**25,768**	**1,108**	**(23,917)**	**186,653**	**(2,241)**	**184,412**
Depreciation and amortization	**134,990**	**3,102**	**2,154**	**45,003**	**1,347**	**275,905**	**462,501**	**(116,923)**	**345,578**
Provision for credit and impairment losses	**–**	**112,639**	**–**	**215,583**	**–**	**2,159**	**330,381**	**147,587**	**477,968**
Other operating expenses	**235,477**	**51,862**	**82,246**	**180,720**	**2,710**	**353,681**	**906,696**	**(85,228)**	**821,468**
Total operating expenses	**990,536**	**347,679**	**196,125**	**766,227**	**17,995**	**1,132,052**	**3,450,614**	**(33,544)**	**3,417,070**
Segment profit (loss)	**(332,054)**	**541,131**	**92,299**	**266,883**	**(1,800)**	**(252,010)**	**314,449**	**320,252**	**634,701**
Provision for income tax	**–**	**(1,479)**	**(139,681)**	**(32,107)**	**–**	**(45,075)**	**(218,342)**	**(16,479)**	**(234,821)**
Non-controlling interest in net income of subsidiaries	**–**	**–**	**–**	**161**	**–**	**–**	**161**	**11**	**172**
Net income (loss)	**(₱332,054)**	**₱539,652**	**(₱47,382)**	**₱234,937**	**(₱1,800)**	**(₱297,085)**	**₱96,268**	**₱303,784**	**₱400,052**
Segment assets									
Property and equipment	**₱542,402**	**₱–**	**₱–**	**₱113,287**	**₱–**	**₱1,314,184**	**₱1,969,873**	**(₱320,829)**	**₱1,649,044**
Investment properties	**–**	**–**	**–**	**64,255**	**–**	**3,707,050**	**3,771,305**	**2,254,105**	**6,025,410**
Unallocated assets	**10,723,618**	**34,323,086**	**22,905,776**	**9,347,353**	**69,413**	**3,089,160**	**80,458,406**	**(1,634,127)**	**78,824,279**
Total segment assets	**₱11,266,020**	**₱34,323,086**	**₱22,905,776**	**₱9,524,895**	**₱69,413**	**₱8,110,394**	**₱86,199,584**	**₱299,149**	**₱86,498,733**
Total segment liabilities	**₱50,140,014**	**₱34,518**	**₱21,569,914**	**₱–**	**₱–**	**₱2,174,145**	**₱73,918,591**	**₱1,798,406**	**₱75,716,997**

	Consolidated								
	2015								
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments	Total
Revenue									
Revenue, net of interest expense									
Third party	₱2,003,627	(₱470,838)	₱9,212	₱736,644	₱7,914	₱45,968	₱2,332,527	(₱6,559)	₱2,325,968
Intersegment	1,301,985	(880,451)	(217,788)	(230,896)	4,166	22,984	–	–	–
Other operating income	(1,188,320)	1,146,093	246,533	382,623	5,283	393,886	986,098	922,799	1,908,897
Total operating income	2,117,292	(205,196)	37,957	888,371	17,363	462,838	3,318,625	916,240	4,234,865
Compensation and fringe benefits	399,162	89,388	29,309	243,233	25,431	556,563	1,343,086	1,072	1,344,158
Taxes and licenses	174,228	75,720	58,745	60,963	1,461	47,411	418,528	17,249	435,777
Occupancy and other equipment-related costs	159,338	2,303	1,048	20,965	903	31,155	215,712	1,979	217,691
Depreciation and amortization	106,057	5,258	2,203	37,819	2,188	242,132	395,657	(105,126)	290,531
Provision for (reversal of) credit and impairment losses	–	62,737	–	125,216	–	(135,014)	52,939	390,863	443,802
Other operating expenses	262,020	39,918	51,676	288,415	4,686	303,989	950,704	(137,816)	812,888
Net operating income (loss)	₱1,016,487	(₱480,520)	(₱105,024)	₱111,760	(₱17,306)	(₱583,398)	(₱58,001)	₱748,019	₱690,018
Segment results									
Net interest income	₱2,003,627	(₱470,838)	₱9,212	₱736,644	₱7,914	₱45,968	₱2,332,527	(₱6,559)	₱2,325,968
Trading and securities loss - net	–	–	(13,552)	–	–	–	(13,552)	(26,913)	(40,465)
Rent income	–	–	–	300	–	403,948	404,248	(176)	404,072
Service charges, fees, and commissions	94,609	245,551	25	116,307	–	1	456,493	(29,937)	426,556
Foreign exchange gain (loss) - net	5,786	13,197	(8,029)	45	(19)	–	10,980	(780)	10,200
Profit from asset sold	–	–	–	854	–	6,314	7,168	(1,833)	5,335
Income from trust operations	5,344	1,410	2,079	–	9,468	–	18,301	(1)	18,300
Fair value gain from investment properties	–	–	–	–	–	–	–	941,728	941,728
Gain on disposal of investment securities at amortized cost	–	–	48,174	–	–	–	48,174	–	48,174
Gain on assets exchange	–	–	–	–	–	–	–	3,702	3,702
Miscellaneous	7,926	5,484	48	34,221	–	6,607	54,286	37,009	91,295
Total operating income	2,117,292	(205,196)	37,957	888,371	17,363	462,838	3,318,625	916,240	4,234,865
Compensation and fringe benefits	399,162	89,388	29,309	243,233	25,431	556,563	1,343,086	1,072	1,344,158
Taxes and licenses	174,228	75,720	58,745	60,963	1,461	47,411	418,528	17,249	435,777
Occupancy and other equipment-related costs	159,338	2,303	1,048	20,965	903	31,155	215,712	1,979	217,691
Depreciation and amortization	106,057	5,258	2,203	37,819	2,188	242,132	395,657	(105,126)	290,531
Provision for (reversal of) credit and impairment losses	–	62,737	–	125,216	–	(135,014)	52,939	390,863	443,802
Other operating expenses	262,020	39,918	51,676	288,415	4,686	303,989	950,704	(137,816)	812,888
Total operating expenses	1,100,805	275,324	142,981	776,611	34,669	1,046,236	3,376,626	168,221	3,544,847
Segment profit (loss)	1,016,487	(480,520)	(105,024)	111,760	(17,306)	(583,398)	(58,001)	748,019	690,018
Provision for income tax	(29)	(1,502)	(138,142)	(15,819)	–	(39,920)	(195,412)	(290,924)	(486,336)
Non-controlling interest in net income of subsidiaries	–	–	–	–	–	1,816	1,816	(2,197)	(381)
Net income (loss)	₱1,016,458	(₱482,022)	(₱243,166)	₱95,941	(₱17,306)	(₱621,502)	(₱251,597)	₱454,898	₱203,301
Segment assets									
Property and equipment	₱586,891	₱–	₱–	₱115,436	₱–	₱1,396,578	₱2,098,905	(₱308,103)	₱1,790,802
Investment properties	–	–	–	67,844	–	3,766,739	3,834,583	1,864,428	5,699,011
Unallocated assets	10,612,987	26,175,773	22,879,852	7,277,161	72,269	4,546,759	71,564,801	(2,978,298)	68,586,503
Total segment assets	₱11,199,878	₱26,175,773	₱22,879,852	₱7,460,441	₱72,269	₱9,710,076	₱77,498,289	(₱1,421,973)	₱76,076,316
Total segment liabilities	₱49,447,498	₱43,578	₱14,001,994	₱2,080,091	₱100,000	₱2,934,254	₱68,607,415	(₱1,455,122)	₱67,152,293

	Consolidated								
	2014								
	Prosperity Banking Segment	Enterprise Banking Segment	Treasury Segment	Convenience Banking Segment	Trust Group	Unallocated	RAP	RAP-PFRS Adjustments	Total
Revenue									
Revenue, net of interest expense									
Third party	₱1,998,907	(₱525,672)	(₱5,525)	₱371,985	₱6,638	₱407,317	₱2,253,650	(₱311,708)	₱1,941,942
Intersegment	1,301,985	(880,451)	(217,788)	(230,896)	4,166	22,984	–	–	–
Other operating income	(1,235,702)	1,099,871	363,352	319,681	3,602	540,247	1,091,051	51,676	1,142,727
Total operating income	2,065,190	(306,252)	140,039	460,770	14,406	970,548	3,344,701	(260,032)	3,084,669
Compensation and fringe benefits	390,607	131,469	25,414	138,645	48,689	642,824	1,377,648	(11,616)	1,366,032
Taxes and licenses	149,402	72,125	77,077	31,759	692	53,587	384,642	(4,518)	380,124
Occupancy and other equipment-related costs	122,672	1,151	438	6,097	707	79,407	210,472	–	210,472
Depreciation and amortization	66,946	6,544	2,113	15,029	3,002	200,354	293,988	(96,027)	197,961
Provision for (reversal of) credit and impairment losses	–	1,521	–	6,222	–	(149,391)	(141,648)	(53,205)	(194,853)
Other operating expenses	241,311	48,336	36,945	170,422	10,364	291,785	799,163	(84,330)	714,833
Net operating income (loss)	₱1,094,252	(₱567,398)	(₱1,948)	₱92,596	(₱49,048)	(₱148,018)	₱420,436	(₱10,336)	₱410,100
Segment results									
Net interest income	₱1,998,907	(₱525,672)	(₱5,525)	₱371,985	₱6,638	₱407,317	₱2,253,650	(₱311,708)	₱1,941,942
Trading and securities gain - net	–	–	146,840	–	–	173,889	320,729	(258,772)	61,957
Rent income	–	–	–	75	–	313,349	313,424	–	313,424
Service charges, fees, and commissions	49,188	207,555	33	80,929	–	(19,219)	318,486	7,978	326,464
Foreign exchange gain (loss) - net	3,107	6,207	(3,590)	–	(4)	26,085	31,805	–	31,805
Profits from asset sold	–	–	–	154	–	48,148	48,302	(39,283)	9,019
Income from trust operations	5,905	2,831	2,539	–	7,772	8	19,055	–	19,055
Fair value gain from investment properties	–	–	–	–	–	–	–	380,407	380,407
Loss on disposal of investment securities at amortized cost	–	–	(258)	–	–	–	(258)	–	(258)
Gains (loss) on assets exchange	–	–	–	104	–	–	104	(21,539)	(21,435)
Miscellaneous	8,083	2,827	–	7,523	–	20,971	39,404	(17,115)	22,289
Total operating income	2,065,190	(306,252)	140,039	460,770	14,406	970,548	3,344,701	(260,032)	3,084,669
Compensation and fringe benefits	390,607	131,469	25,414	138,645	48,689	642,824	1,377,648	(11,616)	1,366,032
Taxes and licenses	149,402	72,125	77,077	31,759	692	53,587	384,642	(4,518)	380,124
Occupancy and other equipment-related costs	122,672	1,151	438	6,097	707	79,407	210,472	–	210,472
Depreciation and amortization	66,946	6,544	2,113	15,029	3,002	200,354	293,988	(96,027)	197,961
Provision for (reversal of) credit and impairment losses	–	1,521	–	6,222	–	(149,391)	(141,648)	(53,205)	(194,853)
Other operating expenses	241,311	48,336	36,945	170,422	10,364	291,785	799,163	(84,330)	714,833
Total operating expenses	970,938	261,146	141,987	368,174	63,454	1,118,566	2,924,265	(249,696)	2,674,569
Segment profit (loss)	1,094,252	(567,398)	(1,948)	92,596	(49,048)	(148,018)	420,436	(10,336)	410,100
Provision for income tax	(19)	(3,027)	(137,904)	(12,921)	–	(58,651)	(212,522)	(87,031)	(299,553)
Non-controlling interest in net income of subsidiaries	–	–	–	–	–	418	418	(8)	410
Net income (loss)	₱1,094,233	(₱570,425)	(₱139,852)	₱79,675	(₱49,048)	(₱206,251)	₱208,332	(₱97,375)	₱110,957
Segment assets									
Property and equipment	₱585,045	₱–	₱–	₱129,025	₱–	₱1,415,492	₱2,129,562	(₱238,532)	₱1,891,030
Investment properties	–	–	–	213,978	–	3,825,139	4,039,117	671,311	4,710,428
Unallocated assets	10,278,710	23,992,485	22,108,821	6,424,372	75,573	4,439,845	67,319,806	(1,985,480)	65,334,326
Total segment assets	₱10,863,755	₱23,992,485	₱22,108,821	₱6,767,375	₱75,573	₱9,680,476	₱73,488,485	(₱1,552,701)	₱71,935,784
Total segment liabilities	₱53,025,721	₱25,619	₱8,288,211	₱1,555,423	₱167,808	₱2,207,461	₱65,270,243	(₱552,938)	₱64,717,305

Net operating gain (loss) after tax reported to the CODM, which is based on RAP, amounted to ₱96.27 million, (₱251.60 million) and ₱208.33 million in 2016, 2015 and 2014, respectively. The difference between RAP and PFRS primarily pertains to the accounting treatment for investment properties and related transactions.

The Group's share in net income of an associate amounting to ₱0.26 million in 2016, ₱0.47 million in 2015, and ₱0.36 million in 2014 are included under RAP-PFRS Adjustments.

7. Business Combination and Goodwill

Acquisition of Rural Bank of Nagcarlan, Inc. (RBNI)
On March 11, 2014, the Parent Company entered into a Memorandum of Agreement (MOA) and Share Purchase Agreement (SPA) with the shareholders of RBNI to acquire the latter's outstanding shares. RBNI was registered with the SEC on May 31, 1962, and was authorized by the BSP to engage in rural banking business on June 2, 1962.

On July 28, 2014, the BSP approved the Parent Company's request to acquire the outstanding shares of RBNI subject to the following conditions:

- Parent Company's infusion of additional capital in RBNI to increase the latter's capital by ₱300.00 million within 5 banking days; and
- Submission by RBNI to BSP of an application to amend its Articles of Incorporation to increase its authorized capital stock within 30 calendar days.

On the same date, BSP acknowledged that the Parent Company is entitled to branch licenses, including the following regulatory incentives in connection with the acquisition of RBNI:

- Relocation of existing branches of RBNI to provincial areas other than Metro Manila, within 2 years from date of closing of transaction; and
- Waiver of special branch licensing and processing fees for the branch licenses.

On August 5, 2014, the Parent Company satisfactorily complied with the BSP's condition to infuse additional capital of ₱300.00 million in RBNI. On August 20, 2014, RBNI submitted to BSP its application for the amendment of its Articles of Incorporation to increase its authorized capital stock. The additional capital infusion of ₱300.00 million was recognized by RBNI as a liability as the application for increase in authorized capital stock is still subject to the approval of the SEC.

On September 1, 2014, the Parent Company obtained control of RBNI through the purchase of 96.32% of the outstanding capital stock of RBNI for ₱48.30 million. The acquisition provides the Parent Company the opportunity to expand its branch network and increase its presence in the consumer and small-medium entities sector.

The Parent Company has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's net identifiable assets.

The following table summarizes the final fair values of the assets acquired and liabilities assumed as of the acquisition date:

Assets	
Cash and other cash items	₱5,637
Due from BSP	15,550
Due from other banks*	337,598
Loans and receivables	67,094
Property and equipment (Note 14)	11,139
Investment properties (Note 15)	165,568
Other assets	1,156
	603,742
Liabilities	
Deposit liabilities	463,709
Accrued interest, taxes and other expenses	4,821
Deferred tax liabilities (Note 31)	32,880
Other liabilities*	318,294
	819,704
Net liabilities assumed	(₱215,962)

** Includes the ₱300.00 million capital infusion of the Parent Company*

In addition to the above identifiable assets and liabilities, the Parent Company recognized the fair value of branch licenses acquired as a result of the business combination amounting to ₱262.90 million (see Note 16) and the related deferred tax liability of ₱78.87 million.

Goodwill from acquisition is computed as follows:

Consideration transferred	₱48,297
Add: Fair value of net liabilities assumed	215,962
Less:	
Proportionate interest of non-controlling interest	(7,947)
Branch licenses granted, net of deferred tax liability	(184,030)
	₱72,282

The goodwill arising from the acquisition can be attributed mainly to expected synergies and increase in geographical presence and customer base.

Acquisition of Banco Dipolog, Inc. A Rural Bank (BDI)

On April 25, 2014, the Parent Company entered into a MOA with the shareholders of BDI to acquire at least 90% of the outstanding ordinary shares of the latter. BDI was registered with SEC on October 8, 1957, and is primarily engaged in rural banking business.

The BSP approved the Parent Company's request to acquire the outstanding shares of BDI on September 9, 2014.

On September 18, 2014, the Parent Company entered into a SPA with the shareholders of BDI and obtained control of the latter. However, for practical expediency, the Parent Company designated October 1, 2014 as the acquisition date. The acquisition allowed the Parent Company to hold 99.80% equity interest in BDI.

The acquisition provides the Parent Company the opportunity to expand its branch network and increase its presence in the consumer and small-medium entities sector.

The Parent Company has elected to measure the non-controlling interest in the acquiree at their proportionate share of the acquiree's net identifiable assets.

The following table summarizes the final fair values of the assets acquired and liabilities assumed as of the acquisition date:

Assets	
Cash and other cash items	₱18,658
Due from BSP	37,715
Due from other banks	384,084
Loans and receivables	914,549
Property and equipment (Note 14)	120,792
Investment properties (Note 15)	19,549
Software cost (Note 16)	5,925
Deferred tax assets (Note 31)	43,085
Other assets	6,368
	1,550,725
Liabilities	
Deposit liabilities	1,093,210
Bills payable and other borrowings	49,191
Accrued interest, taxes and other expenses	5,434
Deferred tax liabilities (Note 31)	9,099
Other liabilities	4,636
	1,161,570
Net assets acquired	₱389,155

Goodwill from acquisition is computed as follows:

Consideration transferred	₱494,544
Add: Proportionate interest of non-controlling interest	785
Less: Fair value of net assets acquired	(389,155)
	₱106,174

The goodwill arising from the acquisition can be attributed mainly to expected synergies and increase in geographical presence and customer base.

Prior to its acquisition by the Parent Company, BDI was in the process of consolidating with Rural Bank of Kabasalan, Inc. (RBKI), a bank that was 99.99% owned by the then majority owners of BDI. As BDI was pushing for an earlier approval of the Parent Company's buy-out, on August 7, 2014, BDI informed BSP about its intention to withdraw its application for consolidation with RBKI and to just submit an application for merger with RBKI after the buy-out. On September 2, 2014, the Parent Company also informed BSP about its commitment to undertake the merger of BDI and RBKI upon receipt of BSP approval for its acquisition of BDI. On January 30, 2015, the former shareholders of BDI confirmed in writing that upon acquisition of BDI, they have also relinquished their ownership in RBKI in favor of PBCom, and that the consideration from PBCom covered both the payment for their shares in BDI and

RBKI. Thus, the final purchase price of ₱498.99 million shall be allocated between BDI and RBKI based on the relative fair values of their net assets. The consideration paid pertaining to RBKI of ₱4.45 million, which is recorded under 'Miscellaneous assets', is treated as deposit for future acquisition until regulatory approvals are obtained, as discussed below.

Three-way Merger of BDI, RBNI and RBKI
On October 28, 2015, the Parent Company's BOD in its regular meeting authorized the three-way merger of BDI, RBNI and RBKI, with BDI as the surviving entity.

On December 15, 2015, the three rural banks entered into a Plan of Merger agreement. Under the agreement, RBNI and RBKI will be merged to BDI upon approval of the BSP, PDIC and SEC and upon issuance by the SEC of a Certificate of Merger.

On December 28, 2015, an application for the three-way merger was submitted to PDIC and BSP. On the same date, management withdrew the application for increase of RBNI's authorized capital stock to give way to the three-way merger. Management expects that regulatory approvals for the acquisition of RBKI will be simultaneously received with the approvals for the merger application.

On March 9, 2016, the application for the amendment of BDI's Articles of Incorporation and By-laws to increase its authorized capital stock was filed with the BSP.

In a letter dated August 5, 2016, pursuant to the Board Resolution No. 2016-07-131, PDIC informed the three rural banks that the consent to the proposed merger was granted.

As of March 29, 2017, the merger application is under consideration of the BSP for eventual approval by its Monetary Board. Management anticipates that the same will be granted within the second quarter of 2017 and upon receipt of the Monetary Board approval, the merger application shall be filed for final approval with the SEC.

Impairment Testing of Goodwill
Since the three-way merger has already been committed as of December 31, 2016 and 2015, goodwill acquired through the acquisition of RBNI and BDI has been allocated to the merged operations of RBNI and BDI, which is considered as a single CGU for purposes of impairment testing. RBKI was not considered in the determination of CGU as its acquisition by the Parent Company has not yet been finalized as of December 31, 2016 and 2015. As of December 31, 2016 and 2015, the carrying amount of goodwill amounted to ₱178.46 million, and management assessed that no impairment losses shall be recognized in 2016, 2015 and 2014.

Key assumptions used in the VIU calculation
As of December 31, 2016, the recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from the five-year strategic plan for BDI and RBNI, as approved by their BODs and the Parent Company. Future cash flows were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities. In 2016 and 2015, the pre-tax discount rate applied to cash flow projections is 11.18% and 9.51%, respectively, while the growth rate to project cash flows beyond the five-year period is 5.00% for both years. Also, in 2016 and 2015, loan and deposit portfolios growth rates are based on the strategy and supported by the existing distribution channels of BDI and RBNI.

Sensivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

8. Investments in Subsidiaries and an Associate

This account consists of investments in:

	% of Ownership			Consolidated			Parent Company (As restated - Note 2)		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Subsidiaries:									
Cost:									
RBNI	**96.32**	96.32	96.32	**₱–**	₱–	₱–	**₱393,297**	₱348,297	₱348,297
BDI	**99.99**	99.80	99.80	**–**	–	–	**520,552**	494,544	494,544
PISAI	**100.00**	100.00	100.00	**–**	–	–	**10,000**	10,000	10,000
				–	–	–	**923,849**	852,841	852,841
Accumulated share in net income									
Balance at January 1				**–**	–	–	**64,434**	(6,313)	–
Share in net income (loss)				**–**	–	–	**49,683**	70,747	(6,313)
Balance at December 31				**–**	–	–	**114,117**	64,434	(6,313)
Accumulated share in other comprehensive income									
Balance at January 1				**–**	–	–	**(1,232)**	(808)	–
Share in change in remeasurement losses on defined benefit liability, net of tax				**–**	–	–	**(709)**	(1,210)	(808)
Share in change in revaluation increment in land, office units and condominium properties, net of tax				**–**	–	–	**–**	786	–
Balance at December 31				**–**	–	–	**(1,941)**	(1,232)	(808)
Payment of dividends				**–**	–	–	**(25,067)**	–	–
				–	–	–	**1,010,958**	916,043	845,720
Associate - PBCom Finance									
Acquisition cost				**2,000**	2,000	2,000	**2,000**	2,000	2,000
Accumulated equity in net income									
Balance at January 1				**10,113**	9,645	9,284	**10,113**	9,645	9,284
Share in net income				**263**	468	361	**263**	468	361
Balance at December 31				**10,376**	10,113	9,645	**10,376**	10,113	9,645
				12,376	12,113	11,645	**12,376**	12,113	11,645
				₱12,376	₱12,113	₱11,645	**₱1,023,334**	₱928,156	₱857,365

The Parent Company acquired 96.32% and 99.80% of the outstanding shares of RBNI and BDI on September 1, 2014 and October 1, 2014, respectively (see Note 7).

RBNI
The investment cost amounting to ₱393.30 million includes the consideration for the initial acquisition of ₱48.30 million, the capital infusion of ₱300.00 million made by the Parent Company in 2014 as required by the BSP, and additional capital infusion of ₱45.00 milllion made in December 2016.

BDI
The investment cost amounting to ₱494.54 million represents the consideration for the acquisition in 2014. On March 9, 2016, the BOD of BDI approved the payment of cash dividends to its shareholders. The dividends received by the Parent Company amounting to ₱25.07 million was given back as an additional investment in BDI. In March 2016, the Parent Company purchased additional shares in BDI amounting to ₱0.94 million, thereby increasing its ownership to 99.99% as of December 31, 2016.

PISAI
As discussed in Note 1, the SEC approved the incorporation of PISAI on May 9, 2014. The investment cost of ₱10.00 million represents the initial equity investment as approved by the BSP on May 2, 2014.

9. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

Interbank loans receivable of the Group and the Parent Company is comprised of USD-denominated loans of ₱310.13 million ($6.24 million) and ₱229.28 million ($4.87 million) as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, there is no outstanding SPURA.

Interest income on interbank loans receivable and SPURA follows:

	Consolidated		
	2016	2015	2014
SPURA	**₱14,441**	₱7,330	₱15,486
Interbank loans receivable (Note 32)	**4,632**	4,101	6,229
	₱19,073	₱11,431	₱21,715

	Parent Company		
	2016	2015	2014
SPURA	**₱14,441**	₱7,330	₱15,486
Interbank loans receivable (Note 32)	**4,632**	11,703	6,229
	₱19,073	₱19,033	₱21,715

Interbank loans receivable bears nominal annual interest rates ranging from 0.40% to 2.56% in 2016, 2.56% to 6.25% in 2015, and 2.09% to 4.00% in 2014 while SPURA bears nominal annual interest rates ranging from 3.00% to 4.00% in 2016, 4.00% in 2015, and 3.50% to 4.00% in 2014.

The Parent Company is not permitted to sell or repledge the related collateral on SPURA in the absence of default by the counterparty.

10. Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL of the Group and the Parent Company consist of:

	2016	2015
Government securities	**₱188,014**	₱–
Private bonds	**112,469**	395,258
	₱300,483	₱395,258

As of December 31, 2016 and 2015, financial assets at FVTPL include net unrealized loss amounting to ₱2.35 million and ₱3.36 million, respectively. Net fair value gain or loss on financial assets at FVTPL is included in ‘Trading and securities gain (loss) - net’ in the statements of income (see Note 27).

11. Equity Securities at Fair Value through Other Comprehensive Income (FVTOCI)

As of December 31, 2016 and 2015, the Group's and the Parent Company's equity securities carried at FVTOCI consists of the following:

	2016	2015
Quoted equity securities	**₱40,935**	₱33,145
Unquoted equity securities	**11,307**	11,307
	₱52,242	₱44,452

The Parent Company has designated the above equity investments as at FVTOCI as they are held for long-term strategic purpose rather than for trading.

In 2016 and 2015, no dividends were declared on these equity investments and no cumulative gain or loss was transferred within equity.

The movements in net unrealized gain on equity securities recognized in OCI follow:

	2016	2015
Balance at January 1	**₱25,831**	₱24,354
Unrealized gains for the year	**7,790**	1,477
Balance at December 31	**₱33,621**	₱25,831

12. Investment Securities at Amortized Cost

As of December 31, 2016 and 2015, the Group's and the Parent Company's investment securities at amortized cost consist of the following:

	2016	2015
Government securities	**₱11,510,454**	₱12,274,555
Private bonds	**1,625,040**	2,193,835
	₱13,135,494	₱14,468,390

As of December 31, 2016, investment securities at amortized cost is comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱10.11 billion and investment in USD-denominated securities amounting to ₱3.03 billion ($60.85 million). As of December 31, 2015, investment securities at amortized cost is comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱10.40 billion and investment in USD-denominated securities amounting to ₱4.07 billion ($86.48 million).

On October 1, 2016, the first day of the accounting period following the change in its business model for managing investments in debt securities (see Note 3), the Parent Company reclassified debt securities with aggregate face amount of US$59.15 million (₱2,875.00 million) from the hold-to-collect portfolio to the trading portfolio and recognized a gain on reclassification of ₱198.70 million (US$4.10 million) presented under 'Gain on reclassification of investment securities from amortized cost to FVTPL' in the statements of income. The change in business model was made to reflect the changes in the Group's strategic priorities and to address the requirements of BSP Circular No. 905.

In 2015, the Parent Company disposed Peso-denominated government securities carried at amortized cost with aggregate face amount of ₱600.00 million, which resulted in a gain of ₱48.17 million. The gain is presented as 'Gain (loss) on disposal of investment securities at amortized cost' in the statements of income. The disposal was made to realign the composition of Secondary Reserves as provided for under the Parent Company's Liquidity Contingency Plan.

In 2014, the Parent Company disposed Peso-denominated government securities carried at amortized cost with aggregate face amount of ₱500.00 million, which resulted in a loss of ₱0.26 million. The loss is presented as 'Gain (loss) on disposal of investment securities at amortized cost' in the statements of income. The sale was made to fund the Parent Company's lending requirement.

13. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Receivables from customers:				
Corporate loans	**₱34,288,555**	₱25,336,201	**₱34,288,555**	₱25,336,201
Consumer loans	**9,638,289**	7,786,461	**7,851,104**	5,925,715
	43,926,844	33,122,662	**42,139,659**	31,261,916
Unearned discounts and capitalized interest	**(107,672)**	(114,595)	**(36,811)**	(24,881)
	43,819,172	33,008,067	**42,102,848**	31,237,035
Unquoted debt securities	**3,157,373**	3,943,674	**3,157,373**	3,943,674
Accrued interest receivable	**780,121**	707,245	**748,220**	682,934
Accounts receivable	**761,351**	824,496	**753,815**	827,114
Sales contracts receivable	**179,588**	186,666	**167,408**	172,397
	48,697,605	38,670,148	**46,929,664**	36,863,154
Less allowance for credit losses (Note 18)	**(2,608,168)**	(2,168,007)	**(2,626,010)**	(2,233,940)
	₱46,089,437	₱36,502,141	**₱44,303,654**	₱34,629,214

<u>BSP Reporting</u>
Information on the concentration of credit as to industry before taking into account the allowance for credit losses follows:

	Consolidated				Parent Company			
	2016		2015		**2016**		2015	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Wholesale and retail trade	**₱9,526,934**	**21.74**	₱7,298,188	22.11	**₱9,460,541**	**22.47**	₱7,271,935	23.28
Manufacturing	**7,828,090**	**17.86**	5,838,384	17.69	**7,828,090**	**18.59**	5,838,384	18.69
Real estate, renting and business activities	**6,860,177**	**15.66**	5,444,528	16.49	**6,766,110**	**16.07**	5,444,528	17.43
Private households with employed persons	**5,368,000**	**12.25**	5,246,762	15.90	**5,368,000**	**12.75**	4,030,909	12.90
Financial intermediaries	**4,809,601**	**10.98**	3,024,956	9.16	**4,809,601**	**11.42**	3,024,956	9.68
Construction	**2,251,414**	**5.14**	1,789,940	5.42	**2,251,414**	**5.35**	1,789,940	5.73
Transport, storage and communication	**1,813,102**	**4.14**	1,470,887	4.46	**1,813,102**	**4.31**	1,470,887	4.71
Agriculture, hunting and forestry	**1,119,423**	**2.55**	882,392	2.67	**802,508**	**1.91**	527,389	1.69
Mining and quarrying	**281,879**	**0.64**	385,569	1.17	**281,879**	**0.67**	385,569	1.23
Others	**3,960,552**	**9.04**	1,626,461	4.93	**2,721,603**	**6.46**	1,452,538	4.66
	₱43,819,172	**100.00**	₱33,008,067	100.00	**₱42,102,848**	**100.00**	₱31,237,035	100.00

The information (gross of unearned discounts and capitalized interest) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2016		2015		**2016**		2015	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Loans secured by:								
Real estate	**₱7,230,862**	**16.46**	₱5,879,417	17.75	**₱7,082,333**	**16.81**	₱5,715,043	18.28
Chattel	**820,772**	**1.87**	2,381,481	7.19	**820,524**	**1.95**	2,381,233	7.62
Deposit hold-out	**3,414,021**	**7.77**	623,896	1.88	**3,414,021**	**8.10**	623,896	2.00
Securities and others	**1,616,197**	**3.68**	598,368	1.81	**1,616,197**	**3.84**	596,665	1.91
Secured	**13,081,852**	**29.78**	9,483,162	28.63	**12,933,075**	**30.69**	9,316,837	29.81
Unsecured loans	**30,844,992**	**70.22**	23,639,500	71.37	**29,206,584**	**69.31**	21,945,079	70.19
	₱43,926,844	**100.00**	₱33,122,662	100.00	**₱42,139,659**	**100.00**	₱31,261,916	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to the BSP follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Secured	**₱660,080**	₱291,812	**₱363,666**	₱203,990
Unsecured	**2,032,222**	2,149,795	**1,895,349**	1,865,027
	₱2,692,302	₱2,441,607	**₱2,259,015**	₱2,069,017

Generally, NPLs refer to loans 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 BSP 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 nonperforming.

In the case of loans that are 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 that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, that is, the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2016 and 2015, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱484.45 million for 2016 and ₱478.53 million for 2015, which the Group reported to the BSP are net of specific allowance amounting to ₱2.21 billion and ₱1.96 billion, respectively. Gross and net NPL ratios of the Group are 6.14% and 1.10% for 2016, respectively, and 7.34% and 1.44%, respectively, for 2015.

Unquoted Debt Securities

As of December 31, 2016 and 2015, unquoted debt securities of the Parent Company consist of the following:

	2016	2015
Investments in:		
Fixed-Rate Corporate Notes	**₱1,606,323**	₱2,383,709
Metro Rail Transit (MRT) bonds	**1,551,050**	1,559,965
	₱3,157,373	₱3,943,674

As of December 31, 2016 and 2015, unquoted debt instruments include corporate notes with par value of ₱1.61 billion and ₱1.85 billion, respectively, which contain embedded prepayment options that allow the issuers to redeem these notes prior to the notes' respective maturities. The notes have original maturities ranging from 7 to 10 years. The Parent Company assessed that these options are clearly and closely related to the host note instruments, since their redemption price approximate the notes' amortized cost on redemption dates. Accordingly, these prepayment options were not accounted for separately from the host note instruments.

Accounts Receivable

Included in Accounts receivable is the tax withheld by the Bureau of Treasury (BTr) from the face value of the Parent Company's investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds upon their maturity. The receivable from BTr constitutes 56.47% and 51.47% of the gross amount of the Parent Company's accounts receivable as of December 31, 2016 and 2015, respectively. The allowance for credit losses provided for the receivable as of December 31, 2015 is ₱53.39 million, which has been fully reversed in 2016 as a result of the final decision of the Supreme Court (SC) on the case, as discussed below.

The Parent Company's investment in PEACe bonds with aggregate face value of ₱3.00 billion matured on October 18, 2011. Upon investing and until the PEACe bonds matured, the Parent Company treated these PEACe bonds as tax-exempt investments in accordance with Bureau of Internal Revenue (BIR) Ruling 020-2001, which the BIR has issued in 2001 to address the taxation of interest income from such bonds. Under BIR Ruling 020-2001, PEACe bonds were not considered to be a "public" borrowing having been issued to less than 20 investors, thus the bonds are not considered as "deposit substitutes" by virtue of Section 22Y of the 1997 Tax Code. Accordingly, interest income realized from the issuance of PEACe bonds was not subjected to the 20.00% final withholding tax (FWT).

However, on October 7, 2011, the BIR issued Ruling No. 370-2011 citing that the PEACe bonds are in the nature of deposit substitutes, thus the interest income on such bonds is subject to the 20.00% FWT. The decision under BIR Ruling No. 370-2011 was based on Rulings Delegated Authority-491-04 and Ruling No. 008-05 which the BIR issued on September 13, 2004 and July 28, 2005, respectively.

Due to BIR Ruling No. 370-2011, which imposes the withholding of the 20.00% FWT, the Parent Company and seven other investor banks filed a case against the Government, the BIR, the BIR Commissioner, the Department of Finance, the Secretary of Finance, the BTr and the National Treasurer (collectively the 'Respondents') with the following prayers:

a. Annul BIR Ruling 370-2011 and related BIR rulings of the same tenor and import, for being unconstitutional; and
b. Prohibit the Respondents from imposing the 20.00% FWT or collecting it from the investor banks and/or the Respondents, particularly the BTr, to pay the full amount of the PEACe bonds in full upon maturity.

On October 18, 2011, the SC issued a temporary restraining order (TRO) in favor of the investor banks which ordered the following:

a. The Government to remit the full payment for the PEACe bonds to the banks; and
b. The banks to deposit in an escrow account an amount equivalent to the 20.00% FWT.

However, the BTr did not observe the TRO claiming that it was received only a day after withholding of the FWT was made. On November 8, 2011, the investor banks filed a Manifestation with Urgent Ex Parte Motion to the SC to direct the Government to comply with the TRO.

On November 2, 2011, the BIR filed its comments on the petition filed by the investor banks to the SC. On December 1, 2011, the investor banks filed its replies in response to the BIR comments. The banks filed a Manifestation with Urgent Reiterative Motion to Direct Respondents to comply with the TRO dated November 27, 2012, to which the Public Respondents filed their Comment dated April 11, 2013. On June 5, 2013, the banks filed a Motion for Leave to File and Admit Attached Reply.

On January 13, 2015, the SC ordered the BTr to return to the holders of the PEACe bonds the 20.00% percent final withholding tax. The SC states that the PEACe bonds are not deposit substitutes subject to the 20.00% final tax, therefore, the BTr should immediately return to the investors the 20.00% final tax it withheld and deducted from the redemption value of the bond when it matured in 2011.

The SC anchored its decision on the fact that, upon origination, the bond was issued to only one buyer/lender, the CODE-NGO, and not to 20 or more lenders (the 20-lender rule) which is a requirement for a debt instrument to become a public borrowing making the instrument a deposit substitute subject to the 20.00% final tax.

On March 13, 2015, the Respondents filed their Motion for Reconsideration to the SC decision which was denied in a resolution dated August 16, 2016. In the said Resolution, the SC ordered the BTr to immediately release and pay the bondholders the amount of ₱4.97 billion, representing 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

By reason of the abovementioned Resolution, on October 19, 2016, the Respondents filed a Motion for Leave (i) to File Motion for Partial Reconsideration; and (ii) to Admit Motion for Partial Reconsideration. However, on January 17, 2017, the counsel for petitioner banks received a Notice of Resolution of the SC dated November 22, 2016 denying Respondents'

Motion for Leave and Motion for Partial Reconsideration for lack of merit since a second motion for reconsideration is a prohibited pleading. The SC further ruled that no further pleadings or motions will be entertained.

Interest Income

Interest income on loans and receivables consists of interest income on:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Receivables from customers:						
Corporate	**₱1,487,781**	₱1,122,165	₱1,010,251	**₱1,487,781**	₱1,122,165	₱1,010,251
Consumer	**1,119,794**	1,114,972	632,809	**757,627**	818,201	589,758
Unquoted debt securities	**280,009**	349,550	425,819	**280,009**	349,550	425,819
Others	**14,484**	10,650	10,579	**14,484**	9,759	10,578
	₱2,902,068	₱2,597,337	₱2,079,458	**₱2,539,901**	₱2,299,675	₱2,036,406

Of the total receivables from customers of the Group as of December 31, 2016, 2015 and 2014, 63.75%, 65.53% and 54.63%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 1.50% to 38.40% in 2016, 1.75% to 38.40% in 2015, and 1.63% to 35.90% in 2014, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 4.49% to 9.82% in 2016, 5.75% to 9.82% in 2015, and 4.25% to 9.82% in 2014.

Unquoted debt securities have EIRs ranging from 5.47% to 11.90% in 2016, 5.00% to 11.90% in 2015, and 5.50% to 11.90% in 2014. Sales contracts receivable bears interest rates ranging from 6.00% to 14.50% in 2016, and 5.55% to 14.50% in 2015 and 2014.

14. Property and Equipment

The composition of and movements in property and equipment of the Group carried at cost follow:

	Consolidated					
	2016					
	Condominium Properties (Note 15)	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost						
Balance at January 1	**₱549,738**	**₱431,571**	**₱1,094,665**	**₱210,031**	**₱35,617**	**₱2,321,622**
Additions	**1,114**	**15,171**	**45,497**	**81,421**	**3,589**	**146,792**
Disposals	**–**	**–**	**(112,636)**	**(8,329)**	**–**	**(120,965)**
Transfers	**–**	**–**	**9,070**	**32,401**	**(39,206)**	**2,265**
Amortization	**–**	**–**	**–**	**(78,175)**	**–**	**(78,175)**
Balance at December 31	**550,852**	**446,742**	**1,036,596**	**237,349**	**–**	**2,271,539**
Accumulated depreciation and amortization						
Balance at January 1	**145,901**	**256,038**	**647,891**	**–**	**–**	**1,049,830**
Depreciation	**17,097**	**22,440**	**138,738**	**–**	**–**	**178,275**
Disposals	**–**	**–**	**(88,910)**	**–**	**–**	**(88,910)**
Transfers	**–**	**–**	**2,310**	**–**	**–**	**2,310**
Balance at December 31	**162,998**	**278,478**	**700,029**	**–**	**–**	**1,141,505**
Net book value	**₱387,854**	**₱168,264**	**₱336,567**	**₱237,349**	**₱–**	**₱1,130,034**

	Consolidated					
	2015					
	Condominium Properties (Note 15)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱544,951	₱448,968	₱1,007,410	₱203,131	₱141,884	₱2,346,344
Additions	4,787	5,415	52,576	1,962	81,536	146,276
Disposals	–	–	(89,004)	–	–	(89,004)
Transfers (Note 15)	–	(22,812)	123,683	65,735	(187,803)	(21,197)
Amortization	–	–	–	(60,797)	–	(60,797)
Balance at December 31	549,738	431,571	1,094,665	210,031	35,617	2,321,622
Accumulated depreciation and amortization						
Balance at January 1	128,876	253,780	561,697	–	–	944,353
Depreciation	17,025	22,847	125,731	–	–	165,603
Disposals	–	–	(39,716)	–	–	(39,716)
Transfers (Note 15)	–	(20,589)	179	–	–	(20,410)
Balance at December 31	145,901	256,038	647,891	–	–	1,049,830
Net book value	₱403,837	₱175,533	₱446,774	₱210,031	₱35,617	₱1,271,792

	Parent Company					
	2016					
	Condominium Properties (Note 15)	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost						
Balance at January 1	**₱549,738**	**₱385,504**	**₱1,062,778**	**₱200,735**	**₱35,617**	**₱2,234,372**
Additions	**1,114**	**14,588**	**38,219**	**79,479**	**3,589**	**136,989**
Disposals	**–**	**–**	**(112,636)**	**(8,329)**	**–**	**(120,965)**
Transfers	**–**	**–**	**9,070**	**32,401**	**(39,206)**	**2,265**
Amortization	**–**	**–**	**–**	**(74,311)**	**–**	**(74,311)**
Balance at December 31	**550,852**	**400,092**	**997,431**	**229,975**	**–**	**2,178,350**
Accumulated depreciation and amortization						
Balance at January 1	**145,901**	**249,581**	**639,387**	**–**	**–**	**1,034,869**
Depreciation	**17,097**	**17,884**	**128,512**	**–**	**–**	**163,493**
Disposals	**–**	**–**	**(88,910)**	**–**	**–**	**(88,910)**
Transfers	**–**	**–**	**2,310**	**–**	**–**	**2,310**
Balance at December 31	**162,998**	**267,465**	**681,299**	**–**	**–**	**1,111,762**
Net book value	**₱387,854**	**₱132,627**	**₱316,132**	**₱229,975**	**₱–**	**₱1,066,588**

	Parent Company					
	2015					
	Condominium Properties (Note 15)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱544,951	₱402,901	₱984,362	₱190,473	₱141,884	₱2,264,571
Additions	4,787	5,415	43,580	1,522	81,536	136,840
Disposals	–	–	(88,847)	–	–	(88,847)
Transfers	–	(22,812)	123,683	65,735	(187,803)	(21,197)
Amortization	–	–	–	(56,995)	–	(56,995)
Balance at December 31	549,738	385,504	1,062,778	200,735	35,617	2,234,372
Accumulated depreciation and amortization						
Balance at January 1	128,876	252,718	562,279	–	–	943,873
Depreciation	17,025	17,452	116,490	–	–	150,967
Disposals	–	–	(39,561)	–	–	(39,561)
Transfers	–	(20,589)	179	–	–	(20,410)
Balance at December 31	145,901	249,581	639,387	–	–	1,034,869
Net book value	₱403,837	₱135,923	₱423,391	₱200,735	₱35,617	₱1,199,503

In February 2015, management decided to lease out the entire 3rd and 4th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱18.70 million was recognized in 'Investment property' (see Note 15). The difference of ₱16.48 million between the fair value amounting to ₱18.70 million and the net carrying amount of the property amounting to ₱2.22 million was recognized as a revaluation increment, net of tax.

The Group recognized gain (loss) on disposal of furniture, fixtures, and equipment, which is included under 'Profit (loss) from assets sold' in the statements of income, amounting to (₱7.78 million), ₱0.96 million and ₱3.41 million in 2016, 2015, and 2014, respectively. The Parent Company recognized gain (loss) on disposal of furniture, fixtures, and equipment amounting to (₱7.78 million), ₱0.12 million and ₱3.41 million in 2016, 2015, and 2014, respectively.

Details of the land carried at appraised value are as follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cost				
Balance at January 1 and December 31	**₱165,410**	₱165,410	**₱117,678**	₱117,678
Appraisal increment				
Balance at January 1	**353,600**	323,629	**352,435**	323,629
Additions	**–**	29,971	**–**	28,806
Balance at December 31	**353,600**	353,600	**352,435**	352,435
	₱519,010	₱519,010	**₱470,113**	₱470,113

Depreciation and Amortization
Details of this account are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Property and equipment	**₱256,450**	₱226,400	₱163,906	**₱237,804**	₱207,962	₱159,347
Software costs (Note 16)	**76,634**	55,011	31,621	**74,198**	53,111	31,146
Chattel mortgage	**12,494**	9,120	2,434	**12,494**	9,119	2,434
	₱345,578	₱290,531	₱197,961	**₱324,496**	₱270,192	₱192,927

As of December 31, 2016 and 2015, the cost of fully depreciated furniture, fixtures and equipment still in use by the Group amounted to ₱318.07 million and ₱368.55 million, respectively.

15. Investment Properties

The composition of and movements in this account follow:

	Consolidated				
	2016				
	Foreclosed Properties				
	Land	Buildings and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Balance at January 1	**₱506,702**	**₱373,532**	**₱880,234**	**₱19,142**	**₱4,799,635**
Additions	**26,357**	**61,492**	**87,849**	**–**	**1,515**
Disposals	**(26,964)**	**(22,405)**	**(49,369)**	**–**	**–**
Net gain from fair value adjustments	**14,522**	**23,764**	**38,286**	**4,716**	**243,402**
Balance at December 31	**₱520,617**	**₱436,383**	**₱957,000**	**₱23,858**	**₱5,044,552**

	Consolidated 2015				
	Foreclosed Properties				
	Land	Buildings and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Balance at January 1	₱420,940	₱330,310	₱751,250	₱–	₱3,959,178
Additions	12,753	25,785	38,538	440	8,192
Disposals	(13,549)	(1,760)	(15,309)	–	(3,708)
Transfers (Note 14)	–	–	–	18,702	–
Net gain from fair value adjustments	86,558	19,197	105,755	–	835,973
Balance at December 31	₱506,702	₱373,532	₱880,234	₱19,142	₱4,799,635

	Parent Company 2016				
	Foreclosed Properties				
	Land	**Buildings and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
Balance at January 1	**₱330,744**	**₱350,664**	**₱681,408**	**₱19,142**	**₱4,799,635**
Additions	**26,357**	**61,492**	**87,849**	**–**	**1,515**
Disposals	**(16,276)**	**(35,178)**	**(51,454)**	**–**	**–**
Net gain from fair value adjustments	**(16,772)**	**20,749**	**3,977**	**4,716**	**243,402**
Balance at December 31	**₱324,053**	**₱397,727**	**₱721,780**	**₱23,858**	**₱5,044,552**

	Parent Company 2015				
	Foreclosed Properties				
	Land	Buildings and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Balance at January 1	₱259,185	₱306,873	₱566,058	₱–	₱3,959,178
Additions	6,154	25,334	31,488	440	8,192
Disposals	(9,916)	–	(9,916)	–	(3,708)
Transfers (Note 14)	–	–	–	18,702	–
Net gain from fair value adjustments	75,321	18,457	93,778	–	835,973
Balance at December 31	₱330,744	₱350,664	₱681,408	₱19,142	₱4,799,635

Condominium units for lease represents the contributed cost of developing the Parent Company's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building (the "PBCom Tower") under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Parent Company's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various condominium certificate of titles under the name of the Parent Company were derived from transfer certificate of title (TCT) No. 134599 where the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In November 2012, management, for administrative purposes and operational efficiencies, decided to use half of the 15th floor and the entire 18th floor of PBCom Tower to house the Parent Company's employees working in the Binondo and Makati Offices. In June 2013, management decided to use the other half of the 15th floor for the same purpose. Accordingly, the carrying values of these units have been reclassified to 'Property and equipment' at cost as of December 31, 2013. In September 2014, management decided to use the entire 15th and 18th floors as areas available for lease of tenants. In October 2014, the units were reclassified to 'Investment properties' at their fair values.

In February 2015, management decided to lease out the entire 3rd and 4th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱18.70 million was recognized as office units for lease under 'Investment properties' (see Note 14).

As of December 31, 2016 and 2015, about 84.47% of the usable area that the Parent Company acquired from the PBCom Tower project is held for lease, with the balance used for the Parent Company's operations. Accordingly, the cost allocable to the areas available for lease is carried as investment properties, while the remaining balance is carried as condominium properties and included in 'Property and equipment' at cost (see Note 14).

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱452.80 million, ₱382.18 million, and ₱301.43 million in 2016, 2015 and 2014, respectively, on condominium properties leased out under operating leases. In 2016 and 2015, the Parent Company also recognized rental income from office units for lease amounting to ₱1.69 million and ₱1.97 million, respectively.

The Group recorded gain (loss) from foreclosure of loan collaterals amounting to ₱12.17 million, ₱3.70 million, and (₱21.44 million) in 2016, 2015, and 2014, respectively. The Parent Company recognized gain (loss) from foreclosure of loan collaterals amounting to ₱12.17 million, (₱0.22 million), and (₱21.54 million) in 2016, 2015, and 2014, respectively. This is presented as 'Gain (loss) on assets exchanges - net' in the statements of income.

The Group recorded gain (loss) on disposal of certain foreclosed properties amounting to (₱0.53 million), ₱5.33 million and ₱5.89 million in 2016, 2015, and 2014, respectively. The Parent Company recognized gain (loss) from the disposal of certain foreclosed properties amounting to (₱1.13 million), ₱5.44 million, and ₱5.74 million, in 2016, 2015, and 2014, respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that generated rental income amounted to ₱89.69 million, ₱103.90 million and ₱77.84 million in 2016, 2015, and 2014, respectively.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that did not generate rental income amounted to ₱1.14 million, ₱19.54 million, and ₱54.72 million in 2016, 2015, and 2014, respectively.

Had the investment properties been accounted for using the cost model, the Group's investment properties as of December 31, 2016 and 2015 would have been ₱2.68 billion and ₱2.57 billion, respectively. Consolidated net income in 2016, 2015 and 2014 would have decreased by ₱267.11 million, ₱644.42 million and ₱252.90 million, respectively. Consequently, this would have resulted in a consolidated net income (loss) of ₱132.77 million, (₱440.74 million) and (₱142.35 million) in 2016, 2015 and 2014, respectively.

Had the investment properties been accounted for using the cost model, the Parent Company's investment properties as of December 31, 2016 and 2015 would have been ₱2.44 billion and ₱2.47 billion, respectively. Parent company net income in 2016, 2015 and 2014 would have decreased by ₱266.51 million, ₱644.28 million and ₱252.89 million, respectively. Consequently, this would have resulted in a parent company net income (loss) of ₱133.54 million, (₱440.98 million) and (₱141.93 million) in 2016, 2015 and 2014, respectively.

16. Intangible Assets

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Branch licenses	**₱365,300**	₱365,300	**₱102,100**	₱102,100
Software costs	**415,866**	459,516	**413,908**	455,966
	₱781,166	₱824,816	**₱516,008**	₱558,066

Branch Licenses

Branch licenses of the Group represent the branch licenses acquired by the Parent Company from the acquisition of Consumer Savings Bank (CSB) in 2001, which amounted to ₱102.10 million, and branch licenses acquired by the Parent Company from the acquisition of RBNI and BDI in 2014, which amounted to ₱262.90 million and ₱0.30 million, respectively.

In previous years, the branch licenses arising from the CSB acquisition have been provided with full allowance as these branches have been reporting negative results. In 2014, the Parent Company reassessed the need for the allowance considering the improvement in the results of operations of the branches. Based on the assessed recoverable amount of the licenses, which aggregated to ₱1.29 billion, a reversal of the full allowance for impairment losses was recognized. In 2016 and 2015, the Parent Company's impairment assessment indicate no impairment. The recoverable amount was based on VIU calculations that use Level 3 inputs as described below.

Key assumptions used in value in use calculations

As of December 31, 2016 and 2015, the recoverable amount of the branch licenses has been determined based on a VIU calculation using cash flow projections based on financial budgets approved by management covering a five-year period. Key assumptions in the VIU calculation of the CGU are most sensitive to the discount rate and growth rate used to project cash flows. Future cash flows were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities. The pre-tax discount rate applied to cash flow projections is 12.64% and 13.25% as of December 31, 2016 and 2015, respectively, and the growth rate used to extrapolate cash flows beyond the five-year period is 5.00% for both years.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

Software
The movements of software costs follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at January 1	**₱459,516**	₱458,092	**₱455,966**	₱452,642
Additions during the year	**32,984**	56,435	**32,140**	56,435
	492,500	514,527	**488,106**	509,077
Amortization during the year (Note 14)	**(76,634)**	(55,011)	**(74,198)**	(53,111)
Balance at December 31	**₱415,866**	₱459,516	**₱413,908**	₱455,966

17. **Other Assets**

Other assets consist of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Receivable from BIR	**₱283,811**	₱283,811	**₱283,811**	₱283,811
Tax credits	**250,558**	212,732	**249,554**	212,732
Nostro floats	**206,414**	206,414	**206,414**	206,414
Prepaid expenses	**76,597**	108,498	**77,710**	103,049
Chattel mortgage	**40,395**	36,121	**40,395**	36,121
Returned Checks and Other Cash Items (RCOCI)	**2,406**	31,696	**2,406**	31,696
Retirement asset (Note 28)	**1,336**	2,482	**–**	–
Miscellaneous	**142,070**	232,817	**127,827**	224,100
	1,003,587	1,114,571	**988,117**	1,097,923
Less allowance for impairment losses (Note 18)	**(494,254)**	(494,156)	**(494,254)**	(494,156)
	₱509,333	₱620,415	**₱493,863**	₱603,767

Receivable from BIR
This account includes creditable withholding tax and various tax credits aggregating to ₱283.81 million, which has been fully provided with allowance for impairment losses in prior years.

Nostro Floats
As of December 31, 2016 and 2015, Nostro floats are fully provided with allowance for impairment losses.

Chattel Mortgage
In 2016, 2015 and 2014, gain (loss) recognized by the Group and the Parent Company from the disposal of certain chattel mortgage amounted to ₱0.99 million, (₱0.95 million), and (₱0.28 million), respectively. This is included under ‘Profit from assets sold’ in the statements of income.

Miscellaneous
As of December 31, 2016 and 2015, the Group's and the Parent Company's 'Miscellaneous' consists of the following:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Refundable security deposits	**₱30,053**	₱41,006	**₱28,449**	₱41,006
DST	**21,145**	18,224	**21,145**	18,224
Creditable withholding taxes	**15,577**	16,939	**15,562**	16,939
Advance rentals	**11,773**	14,173	**11,773**	14,173
Stationery and supplies	**8,472**	8,987	**4,327**	5,223
Others	**55,050**	133,488	**46,571**	128,535
	₱142,070	₱232,817	**₱127,827**	₱224,100

18. **Allowance for Credit and Impairment Losses**

Changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at January 1:				
Loans and receivables (Note 13)	**₱2,168,007**	₱1,852,397	**₱2,233,940**	₱1,848,709
Other assets (Note 17)	**494,156**	493,511	**494,156**	493,511
	2,662,163	2,345,908	**2,728,096**	2,342,220
Provision for (reversal of) credit and impairment losses	**477,968**	443,802	**396,223**	391,493
Revaluation of FCDU loans	**3,044**	3,605	**3,044**	3,605
Accounts written off and others	**(40,753)**	(131,152)	**(7,099)**	(9,222)
	440,259	316,255	**392,168**	385,876
Balance at December 31:				
Loans and receivables (Note 13)	**2,608,168**	2,168,007	**2,626,010**	2,233,940
Other assets (Note 17)	**494,254**	494,156	**494,254**	494,156
	₱3,102,422	₱2,662,163	**₱3,120,264**	₱2,728,096

Below is the breakdown of provisions for (reversals of) credit and impairment losses:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Loans and receivables	**₱477,968**	₱434,022	(₱67,576)	**₱396,223**	₱381,713	(₱71,264)
Intangible assets	–	–	(102,100)	–	–	(102,100)
Other assets	–	9,780	(25,177)	–	9,780	(25,177)
	₱477,968	₱443,802	(₱194,853)	**₱396,223**	₱391,493	(₱198,541)

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the noncollection or nonrealization of its receivables and other risk assets. A reconciliation of the allowance for credit losses by class of loans and receivables follows:

	Consolidated			
	2016			
	Corporate	**Consumer**	**Others***	**Total**
Balance at January 1	**₱1,343,829**	**₱314,455**	**₱509,723**	**₱2,168,007**
Provisions (reversals) during the year	**183,302**	**319,011**	**(24,345)**	**477,968**
Revaluation	**2,922**	**–**	**24**	**2,946**
Others**	**(3,413)**	**(37,105)**	**(235)**	**(40,753)**
Balance at December 31	**₱1,526,640**	**₱596,361**	**₱485,167**	**₱2,608,168**
Individual impairment	**₱1,111,870**	**₱29,529**	**₱456,639**	**₱1,598,038**
Collective impairment	**414,770**	**566,832**	**28,528**	**1,010,130**
	₱1,526,640	**₱596,361**	**₱485,167**	**₱2,608,168**
Gross amount of loans individually determined to be impaired	**₱1,662,119**	**₱38,204**	**₱456,639**	**₱2,156,962**

** This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.*
*** This includes transfers and write-offs.*

	Consolidated			
	2015			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,191,023	₱116,169	₱545,205	₱1,852,397
Provisions (reversals) during the year	149,288	319,290	(34,556)	434,022
Revaluation	3,518	–	–	3,518
Others**	–	(121,004)	(926)	(121,930)
Balance at December 31	₱1,343,829	₱314,455	₱509,723	₱2,168,007
Individual impairment	₱1,012,489	₱35,693	₱355,566	₱1,403,748
Collective impairment	331,340	278,762	154,157	764,259
	₱1,343,829	₱314,455	₱509,723	₱2,168,007
Gross amount of loans individually determined to be impaired	₱1,166,414	₱44,124	₱355,566	₱1,566,104

** This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.*
*** This includes transfers and write-offs.*

	Parent Company			
	2016			
	Corporate	**Consumer**	**Others***	**Total**
Balance at January 1	**₱1,343,829**	**₱377,112**	**₱512,999**	**₱2,233,940**
Provisions (reversal) during the year	**183,302**	**230,520**	**(17,599)**	**396,223**
Revaluation	**2,922**	**–**	**24**	**2,946**
Others**	**(3,413)**	**(3,617)**	**(69)**	**(7,099)**
Balance at December 31	**₱1,526,640**	**₱604,015**	**₱495,355**	**₱2,626,010**
Individual impairment	**₱1,111,870**	**₱–**	**₱456,639**	**₱1,568,509**
Collective impairment	**414,770**	**604,015**	**38,716**	**1,057,501**
	₱1,526,640	**₱604,015**	**₱495,355**	**₱2,626,010**
Gross amount of loans individually determined to be impaired	**₱1,662,119**	**₱–**	**₱456,639**	**₱2,118,758**

** This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.*
*** This includes transfers and write-offs.*

	Parent Company			
	2015			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,191,023	₱112,482	₱545,204	₱1,848,709
Revaluation	3,518	–	–	3,518
Provisions (reversal) during the year	149,288	264,630	(32,205)	381,713
Balance at December 31	₱1,343,829	₱377,112	₱512,999	₱2,233,940
Individual impairment	₱1,012,489	₱–	₱355,566	₱1,368,055
Collective impairment	331,340	377,112	157,433	865,885
	₱1,343,829	₱377,112	₱512,999	₱2,233,940
Gross amount of loans individually determined to be impaired	₱1,166,414	₱–	₱355,566	₱1,521,980

** This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.*

19. Deposit Liabilities

On March 27 and May 8, 2014, the Monetary Board of BSP issued Circular No. 830 and Circular 832, respectively, increasing the statutory and liquidity reserve requirement from 18% to 20%. As of December 31, 2016 and 2015, the Group is in compliance with the above regulations.

As of December 31, 2016 and 2015, Due from BSP amounting to ₱12.24 billion and ₱9.49 billion, respectively, were set aside as reserves for deposit liabilities.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Demand	**₱36,531**	₱36,798	₱36,002	**₱36,873**	₱36,798	₱36,002
Savings	**6,987**	13,575	11,043	**5,545**	7,717	8,006
Time	**817,883**	819,553	835,050	**757,234**	780,883	827,832
	₱861,401	₱869,926	₱882,095	**₱799,652**	₱825,398	₱871,840

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 3.50% in 2016, 2015 and 2014 while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 1.50%, 0.10% to 1.48%, and 0.25% to 1.50%, in 2016, 2015 and 2014, respectively.

20. Bills Payable

This account consists of borrowings from:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Private firms and individuals	**₱10,091,388**	₱6,023,551	**₱10,091,388**	₱6,023,551
Banks and other financial institutions	**7,996**	458,069	**7,996**	273,311
	₱10,099,384	₱6,481,620	**₱10,099,384**	₱6,296,862

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Borrowed funds	**₱170,735**	₱92,423	₱77,661	**₱170,101**	₱88,316	₱77,327
Net interest cost on defined benefit liability (Note 28)	**6,650**	11,249	11,761	**6,603**	11,005	11,699
PDIC loan (Note 1)	**–**	–	210,893	**–**	–	210,893
	₱177,385	₱103,672	₱300,315	**₱176,704**	₱99,321	₱299,919

The Group has no dollar interbank borrowings as of December 31, 2016. Dollar interbank borrowings amounted to ₱273.31 million as of December 31, 2015 which is subject to annual floating interest rates averaging 0.78%.

The Parent Company did not avail of peso and dollar rediscounting facilities in 2016 and 2015.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 30 to 216 days and bear annual interest rates ranging from 0.41% to 2.90%, 1.00% to 2.63%, and 0.50% to 3.31%, in 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, Due from BSP amounting to ₱310.62 million and ₱549.52 million, respectively, were set aside as reserves for deposit substitutes.

21. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities				
Accrued interest payable	**₱75,416**	₱97,909	**₱57,832**	₱78,108
Accrued other expenses	**261,403**	288,374	**255,754**	277,060
	336,819	386,283	**313,586**	355,168
Non-financial liabilities				
Retirement liability (Note 28)	**56,311**	133,573	**51,779**	129,474
Accrued taxes and licenses	**21,445**	19,329	**17,087**	16,773
	77,756	152,902	**68,866**	146,247
	₱414,575	₱539,185	**₱382,452**	₱501,415

22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities				
Accounts payable	**₱195,711**	₱273,313	**₱182,302**	₱268,764
Refundable security deposits	**140,349**	107,848	**140,159**	107,848
Due to the Treasurer of the Philippines	**24,049**	24,514	**23,672**	24,138
	360,109	405,675	**346,133**	400,750
Non-financial liabilities				
Deferred credits	**166,221**	129,856	**166,221**	129,686
Withholding taxes payable	**31,674**	32,083	**29,542**	29,183
Miscellaneous	**58,548**	47,224	**59,397**	46,814
	256,443	209,163	**255,160**	205,683
	₱616,552	₱614,838	**₱601,293**	₱606,433

Miscellaneous liabilities of the Parent Company include marginal deposits, cash letters of credit, and deposit liabilities classified as dormant.

23. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	Consolidated					
	2016			2015		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱1,042,611**	**₱–**	**₱1,042,611**	₱1,343,340	₱–	₱1,343,340
Due from BSP	**13,356,075**	**–**	**13,356,075**	11,909,774	–	11,909,774
Due from other banks	**2,996,758**	**–**	**2,996,758**	2,008,522	–	2,008,522
Interbank loans receivable and SPURA (Note 9)	**310,131**	**–**	**310,131**	229,281	–	229,281
Financial assets at FVTPL (Note 10)	**300,483**	**–**	**300,483**	395,258	–	395,258
Equity securities at FVTOCI (Note 11)	**52,242**	**–**	**52,242**	44,452	–	44,452
Investment securities at amortized cost (Note 12)	**481,771**	**12,653,723**	**13,135,494**	256,808	14,211,582	14,468,390
Loans and receivables (Note 13):						
Receivables from customers	**27,728,796**	**16,198,048**	**43,926,844**	20,396,275	12,726,387	33,122,662
Unquoted debt securities	**–**	**3,157,373**	**3,157,373**	–	3,943,674	3,943,674
Accrued interest receivable	**501,515**	**278,606**	**780,121**	73,753	633,492	707,245
Accounts receivable	**615,942**	**145,409**	**761,351**	398,823	425,673	824,496
Sales contracts receivable	**38,889**	**140,699**	**179,588**	31,971	154,695	186,666
Other assets (Note 17):						
Refundable security deposits	**–**	**30,053**	**30,053**	–	41,006	41,006
RCOCI	**2,406**	**–**	**2,406**	31,696	–	31,696
	47,427,619	**32,603,911**	**80,031,530**	37,119,953	32,136,509	69,256,462

(Forward)

	Consolidated					
	2016			2015		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Non-financial assets - at gross						
Investment in subsidiaries and an associate (Note 8)	**₱–**	**₱12,376**	**₱12,376**	₱–	₱12,113	₱12,113
Property and equipment (Note 14)	**–**	**2,790,549**	**2,790,549**	–	2,840,632	2,840,632
Investment properties (Note 15):						
Condominium units for lease	**–**	**5,044,552**	**5,044,552**	–	4,799,635	4,799,635
Foreclosed properties	**–**	**957,000**	**957,000**	–	880,234	880,234
Office units for lease	**–**	**23,858**	**23,858**	–	19,142	19,142
Goodwill (Note 7)	**–**	**178,456**	**178,456**	–	178,456	178,456
Intangible assets (Note 16)	**–**	**781,166**	**781,166**	–	824,816	824,816
Deferred tax assets (Note 31)	**–**	**59,717**	**59,717**	–	49,545	49,545
Other assets (Note 17)	**109,561**	**861,567**	**971,128**	1,148	1,040,721	1,041,869
	109,561	**10,709,241**	**10,818,802**	1,148	10,645,294	10,646,442
	₱47,537,180	**₱43,313,152**	**90,850,332**	₱37,121,101	₱42,781,803	79,902,904
Less:						
Unearned interest and discounts (Note 13)			**(107,672)**			(114,595)
Accumulated depreciation and amortization (Note 14)			**(1,141,505)**			(1,049,830)
Allowance for credit and impairment losses (Notes 13 and 18)			**(3,102,422)**			(2,662,163)
Total			**₱86,498,733**			₱76,076,316
Financial liabilities						
Deposit liabilities:						
Demand	**₱15,464,230**	**₱–**	**₱15,464,230**	₱12,523,472	₱–	₱12,523,472
Savings	**6,943,767**	**–**	**6,943,767**	5,046,514	8,250	5,054,764
Time	**35,251,411**	**5,486,573**	**40,737,984**	36,351,251	4,372,866	40,724,117
Bills payable (Note 20)	**10,099,384**	**–**	**10,099,384**	6,481,620	–	6,481,620
Outstanding acceptances	**34,357**	**–**	**34,357**	42,065	–	42,065
Manager's checks	**300,385**	**–**	**300,385**	108,914	–	108,914
Accrued interest payable (Note 21)	**75,416**	**–**	**75,416**	97,909	–	97,909
Accrued other expenses (Note 21)	**261,403**	**–**	**261,403**	288,374	–	288,374
Other liabilities (Note 22):						
Accounts payable	**195,711**	**–**	**195,711**	273,313	–	273,313
Refundable security deposits	**29,029**	**111,320**	**140,349**	27,615	80,233	107,848
Due to the Treasurer of the Philippines	**24,049**	**–**	**24,049**	24,328	186	24,514
	68,679,142	**5,597,893**	**74,277,035**	61,265,375	4,461,535	65,726,910
Non-financial liabilities						
Deferred tax liabilities (Note 31)	**–**	**1,105,523**	**1,105,523**	–	1,033,544	1,033,544
Retirement liability (Notes 21 and 28)	**–**	**56,311**	**56,311**	–	133,573	133,573
Accrued taxes and licenses (Note 21)	**21,445**	**–**	**21,445**	19,329	–	19,329
Income tax payable	**240**	**–**	**240**	29,774	–	29,774
Other liabilities (Note 23):						
Deferred credits	**–**	**166,221**	**166,221**	–	129,856	129,856
Withholding taxes payable	**2,132**	**29,542**	**31,674**	2,900	29,183	32,083
Miscellaneous	**6,521**	**52,027**	**58,548**	3,506	43,718	47,224
	30,338	**1,409,624**	**1,439,962**	55,509	1,369,874	1,425,383
	₱68,709,480	**₱7,007,517**	**₱75,716,997**	₱61,320,884	₱5,831,409	₱67,152,293

	Parent Company					
	2016			2015		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱1,011,756**	**₱–**	**₱1,011,756**	₱1,311,615	₱–	₱1,311,615
Due from BSP	**13,276,681**	**–**	**13,276,681**	11,839,461	–	11,839,461
Due from other banks	**2,631,497**	**–**	**2,631,497**	1,786,592	–	1,786,592
Interbank loans receivable and SPURA (Note 9)	**310,131**	**–**	**310,131**	229,281	–	229,281
Financial assets at FVTPL (Note 10)	**300,483**	**–**	**300,483**	395,258	–	395,258
Equity securities at FVTOCI (Note 11)	**52,242**	**–**	**52,242**	44,452	–	44,452
Investment securities at amortized cost (Note 12)	**481,771**	**12,653,723**	**13,135,494**	256,808	14,211,582	14,468,390
Loans and receivables (Note 13):						
Receivables from customers	**27,485,151**	**14,654,508**	**42,139,659**	20,036,813	11,225,103	31,261,916
Unquoted debt securities	**–**	**3,157,373**	**3,157,373**	–	3,943,674	3,943,674
Accrued interest receivable	**469,614**	**278,606**	**748,220**	49,442	633,492	682,934
Accounts receivable	**608,407**	**145,408**	**753,815**	401,441	425,673	827,114
Sales contracts receivable	**38,844**	**128,564**	**167,408**	17,702	154,695	172,397
Other assets (Note 17):						
Refundable security deposits	**–**	**28,449**	**28,449**	–	41,006	41,006
RCOCI	**2,406**	**–**	**2,406**	31,696	–	31,696
	46,668,983	**31,046,631**	**77,715,614**	36,400,561	30,635,225	67,035,786
Non-financial assets - at gross						
Investment in subsidiaries and an associate (Note 8)	**–**	**1,023,334**	**1,023,334**	–	928,156	928,156
Property and equipment (Note 14)	**–**	**2,648,463**	**2,648,463**	–	2,704,485	2,704,485
Investment properties (Note 15):						
Condominium units for lease	**–**	**5,044,552**	**5,044,552**	–	4,799,635	4,799,635
Foreclosed assets	**–**	**721,780**	**721,780**	–	681,408	681,408
Office units for lease	**–**	**23,858**	**23,858**	–	19,142	19,142
Intangible assets (Note 16)	**–**	**516,008**	**516,008**	–	558,066	558,066
Other assets (Note 17)	**99,349**	**857,913**	**957,262**	–	1,025,221	1,025,221
	99,349	**10,835,908**	**10,935,257**	–	10,716,113	10,716,113
	₱46,768,332	**₱41,882,539**	**88,650,871**	₱36,400,561	₱41,351,338	77,751,899
Less:						
Unearned interest and discounts (Note 13)			**(36,811)**			(24,881)
Accumulated depreciation and amortization (Note 14)			**(1,111,762)**			(1,034,869)
Allowance for credit and impairment losses (Notes 13 and 18)			**(3,120,264)**			(2,728,096)
Total			**₱84,382,034**			₱73,964,053
Financial liabilities						
Deposit liabilities:						
Demand	**₱15,571,988**	**₱–**	**₱15,571,988**	₱12,610,784	₱–	₱12,610,784
Savings	**6,400,070**	**–**	**6,400,070**	4,507,544	–	4,507,544
Time	**34,242,621**	**4,984,422**	**39,227,043**	35,561,311	3,875,874	39,437,185
Bills payable (Note 20)	**10,099,384**	**–**	**10,099,384**	6,296,862	–	6,296,862
Outstanding acceptances	**34,357**	**–**	**34,357**	42,065	–	42,065
Manager's checks	**300,385**	**–**	**300,385**	108,914	–	108,914
Accrued interest payable (Note 21)	**57,832**	**–**	**57,832**	78,108	–	78,108
Accrued other expenses (Note 21)	**255,754**	**–**	**255,754**	277,060	–	277,060

(Forward)

	Parent Company					
	2016			2015		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Other liabilities (Note 22):						
Accounts payable	**₱182,302**	**₱–**	**₱182,302**	₱268,764	₱–	₱268,764
Refundable security deposits	**29,029**	**111,130**	**140,159**	27,615	80,233	107,848
Due to the Treasurer of the Philippines	**23,672**	**–**	**23,672**	24,138	–	24,138
	67,197,394	**5,095,552**	**72,292,946**	59,803,165	3,956,107	63,759,272
Non-financial liabilities						
Deferred tax liabilities (Note 31)	**–**	**974,865**	**974,865**	–	911,399	911,399
Retirement liability (Notes 21 and 28)	**–**	**51,779**	**51,779**	–	129,474	129,474
Accrued taxes and licenses (Note 21)	**17,087**	**–**	**17,087**	16,773	–	16,773
Income tax payable	**182**	**–**	**182**	10,241	–	10,241
Other liabilities (Note 22):						
Deferred credits	**–**	**166,221**	**166,221**	–	129,686	129,686
Withholding taxes payable	**–**	**29,542**	**29,542**	–	29,183	29,183
Miscellaneous	**7,369**	**52,028**	**59,397**	2,602	44,212	46,814
	24,638	**1,274,435**	**1,299,073**	29,616	1,243,954	1,273,570
	₱67,222,032	**₱6,369,987**	**₱73,592,019**	₱59,832,781	₱5,200,061	₱65,032,842

24. Equity

Common Stock

Details of common stock follow:

	Shares		Amount	
	2016	2015	**2016**	2015
Common - ₱25 par value				
Authorized	**760,000**	760,000		
Issued and outstanding	**299,565**	299,565	**₱7,489,114**	₱7,489,114

The Parent Company became listed in the PSE on May 12, 1988. After its listing in the PSE, there was no succeeding offer/selling to the public of the Parent Company's shares.

The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25
March 11, 2013	Common	760,000,000	25

As reported by the Parent Company's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 460 and 399 as of December 31, 2016 and 2015, respectively.

Subscribed Common Stock
This pertains to the subscription of PGH to 181,080,608 new shares of the Parent Company in 2014 (see Note 1). Details of the account follow:

	2016	2015
Subscribed common stock		
Balance at January 1 December 31	**₱5,975,660**	₱5,975,660
Less: Subscription receivable		
Balance at January 1	**2,788,641**	4,182,962
Collections during the year	**(1,394,321)**	(1,394,321)
	1,394,320	2,788,641
Balance at December 31	**₱4,581,340**	₱3,187,019

Quasi-reorganization
On January 18, 2012, the BOD in its regular meeting approved the quasi-reorganization and increase in authorized capital stock of the Parent Company. The quasi-reorganization will reduce the par value of the Parent Company's 145.00 million authorized common shares from ₱100.00 to ₱25.00 and that the 120.00 million authorized preferred shares with par value of 25.00 will be declassified and converted to common shares with par value of ₱25.00. Further, the authorized capital stock will be increased to ₱19.00 billion divided into 760.00 million shares with par value of ₱25.00.

On March 28, 2012, the shareholders of the Parent Company representing at least two thirds (2/3) of the outstanding capital stock ratified the said quasi-reorganization and increase in authorized capital stock.

On December 19, 2012, the Parent Company applied for the said quasi-reorganization and increase in authorized capital stock with the BSP and SEC, respectively. On February 8, 2013, the BSP issued a Certicate of Authority to enable the Parent Company to register its Amended Articles of Incorporation and Amended By-Laws with the SEC.

On March 8, 2013, the Parent Company obtained the SEC's approval for the increase in its authorized capital stock.

The Parent Company incurred costs of ₱40.87 million for the approval/registration of the increase in its authorized capital stock with the SEC and documentary stamp taxes for issuance of new shares.

On December 3, 2013, the Parent Company received the "No Objection" Notice from the BSP relative to its application with the SEC for equity restructuring.

On December 11, 2013, the Parent Company received from the SEC the Certificate of Approval of Equity Restructuring which allowed the Bank to effect the partial wipe out of Deficit as of December 31, 2012 of ₱8.66 billion against additional paid-in capital of ₱3.94 billion. However, any remaining additional paid-in capital balance shall not be used to wipe out losses that may be incurred in the future without prior approval of the SEC.

Surplus Reserves
As of December 31, 2016 and 2015, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱105.77 million.

In compliance with BSP regulations, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Deficit
As of December 31, 2016 and 2015, deficit in the statements of financial position includes fair value gain on investment properties amounting to ₱2.46 billion and ₱2.21 billion, respectively, which are not available for dividend declaration. The fair value gain on investment properties will form part of retained earnings available for dividend declaration when the properties are sold and the gain is realized.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 differs to a certain extent from the computation following BSP Guidelines.

Capital Management
The primary objectives of the Parent Company's capital management are to ensure that the Parent Company complies with regulatory capital requirements and that the Parent Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Parent Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Parent Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP in supervising the Group. The Parent Company had complied in full with all its regulatory capital requirements.

On December 20, 2012, the BSP, in its Resolution No. 2088 dated December 14, 2012, approved the following request of the Bank as part of post-acquisition incentives from ISM Group's acquisition:

- To book ₱1.90 billion revaluation increment resulting from revaluation of PBCom Tower; and
- To allow the revaluation increment to form part of the unimpaired capital and qualifying capital in the computation of net worth and capital adequacy ratio.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Group's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which may differ from PFRS in some respects (for example, measurement of investment properties).

The BSP, under BSP Circular No. 538 dated August 4, 2006, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

Below is a summary of risk weights and selected exposure types:

Risk Weight	Exposure/Asset Type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	Cash and other cash items, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (for example, real estate assets) excluding those deducted from capital (for example, deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities

*Not all inclusive

On January 15, 2013, the BSP issued Circular No. 781 on Basel III Implementing Guidelines on Minimum Capital Requirements, which provided that the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular went into effect on January 1, 2014.

The Circular defines in greater detail, the quality capital a bank must maintain to cover its risks. These include:

- Tier One capital - comprises the Group's and the Parent Company's core capital resources that are immediately available to sustain the financial stability of the group. Components of tier one capital include:

  - Core-Equity Tier One or CET-1 includes paid-in shares of common stock, retained earnings and accumulated other comprehensive income. CET-1 must be the

predominant form of Tier One Capital. CET-1 absorbs all deductions to capital mandated by regulation. These deductions include capital invested in affiliates, net deferred tax assets, intangible assets and goodwill items.
- Alternative Tier One or AT-1 includes other equity type claims on a bank's balance sheet that are sufficiently subordinate to the claims of depositors and senior creditors and whose cash flow distributions are not committed and cancellable at the option of the bank.

- Tier Two capital - includes auxiliary items, such as the gernal loan loss provision and appraisal increment reserves on investment property, that supplement Tier One Capital in sustaining the financial stability of the bank.

Banks must maintain CET-1 capital equivalent to 6.00%, Total Tier One capital equivalent to 7.5% and Total capital equivalent to 10% of regulatory risk weighted assets at all times.

At the end of 2016 and 2015, the Group and the Parent Company reported ratios in excess of the regulatory requirements.

Presented below are the composition of qualifying capital and the related disclosures as reported to the BSP (amounts in millions):

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
CET-1 Capital	**₱8,603**	₱7,311	**₱8,659**	₱7,364
Less: Regulatory Adjustments to CET-1	**(1,025)**	(958)	**(1,439)**	(1,302)
	7,578	6,353	**7,220**	6,062
Additional Tier 1 Capital	–	–	–	–
Less: Regulatory Adjustments to AT-1	–	–	–	–
	–	–	–	–
Total Tier 1 Capital	**7,578**	6,353	**7,220**	6,062
Tier 2 Capital	**1,999**	1,890	**1,969**	1,859
Less: Regulatory Adjustments to Tier 2 Capital	–	–	–	–
Total Tier 2 Capital	**1,999**	1,890	**1,969**	1,859
Total Qualifying Capital	**₱9,577**	₱8,243	**₱9,189**	₱7,921

The Group's and the Parent Company's RBCAR as reported to BSP as of December 31, 2016 and 2015 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
CET-1 Capital:				
Paid-up common stock	**₱12,070**	₱10,676	**₱12,070**	10,676
Additional paid-in capital	**814**	814	**814**	814
Retained earnings	**(4,230)**	(3,966)	**(4,184)**	(3,922)
Undivided profits	**96**	(252)	**96**	(252)
Net unrealized gains or losses on AFS-FVTOCI	**26**	24	**26**	25
Cumulative foreign currency translation	**8**	23	**8**	23
Other comprehensive income	**(171)**	–	**(171)**	–
Minority interest in subsidiary banks	**(10)**	(8)	–	–
	8,603	7,311	**8,659**	7,364
Less: Regulatory Adjustments to CET-1				
Outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**1**	–	**2**	7

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Goodwill	**₱256**	₱255	**₱102**	₱102
Other intangible asset	**741**	676	**374**	307
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	**–**	–	**934**	859
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	**15**	15	**15**	15
Significant minority investments	**12**	12	**12**	12
	1,025	958	**1,439**	1,302
Tier 2 Capital				
Additional Tier 1 Capital	–	–	–	–
Less: Regulatory Adjustments to AT-1	–	–	–	–
	–	–	–	–
Total Tier 1 Capital	**7,578**	6,353	**7,220**	6,062
Appraisal increment reserve	**1,596**	1,580	**1,582**	1,568
General loan loss provision	**403**	310	**387**	291
	1,999	1,890	**1,969**	1,859
Less: Regulatory Adjustments to Tier 2 Capital	–	–	–	–
Total Tier 2 Capital	**1,999**	1,890	**1,969**	1,859
Total Qualifying Capital	**₱9,577**	₱8,243	**₱9,189**	₱7,921
Credit risk-weighted assets	**₱59,199**	₱49,731	**₱56,895**	₱47,465
Market risk-weighted assets	**545**	615	**545**	615
Operational risk-weighted assets	**5,544**	4,720	**5,315**	4,681
Total Risk Weighted Assets	**₱65,288**	₱55,066	**₱62,755**	₱52,761
CET 1 Capital Ratio	**11.61%**	11.54%	**11.51%**	11.49%
Tier 1 Capital Ratio	**11.61%**	11.54%	**11.51%**	11.49%
Total Capital Ratio	**14.67%**	14.97%	**14.64%**	15.01%

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP methodology of the Parent Company was based on the minimum regulatory capital requirement under BSP Circular No. 639 which involved, first, an assessment of whether the risks covered by the Framework are fully captured; and second, an assessment of other risks the Parent Company is exposed to which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks. The ICAAP document is to be submitted by the Parent Company on March 31, 2017.

The ICAAP, which included the discussion on the 2017 Holistic Risk Appetite and Components as well as the ranges of capital that the Parent Company should sustain to support the three year Business Plan under going-concern and stress scenarios, was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Salient points of the 2017 ICAAP include:

- The Parent Company's total Qualifying Capital for December 31, 2017 fully covers the capital requirement for risks under BSP Circular Nos. 538 ad 639 (Pillar 1 and Pillar 2 risks).
- The 3-year plan indicates that the Parent Company's capital base is more than adequate to support and sustain the strategy and projected balance sheet growth for 2017 to 2019 and is sufficient to cover Pillar 1 and Pillar 2 risk requirements.

- The Parent Company's statement for Materiality of Risk refers to any factors that could significantly affect the on-going viability of the Parent Company. It is considered the overriding concern of the organization after the capital assessment of the eight risks under the ICAAP as approved by the ICAAP Steering Committee, Risk Oversight Committee, and the BOD.

25. Commitments and Contingent Liabilities

In the normal course of operations, the Group has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Parent Company does not anticipate any material losses as a result of these transactions.

The following is a summary of the Group's and the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2016	2015
Trust department accounts (Note 26)	**₱5,683,734**	₱5,594,481
Standby LC	**2,222,648**	1,759,656
Spot exchange:		
Bought	**422,620**	753,446
Sold	**234,497**	753,260
Usance LC outstanding	**117,196**	74,854
Outstanding shipping guarantees	**1,241,238**	509,078
Sight LC outstanding	**277,937**	370,465
Deficiency claims receivable	**27,498**	27,498
Outward bills for collection	**24,890**	21,416
Currency forwards:		
Bought	**236,463**	5,084
Sold	**484,239**	5,132
Inward bills for collection	**75,654**	75,844
Items held for safekeeping	**100**	244
Items held as collateral	**6**	5
Other contingencies	**56,592**	9,807

The Group has certain loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums that would have a material effect on the financial statements.

The Group is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated and Parent Company's financial statements.

<u>Derivative Financial Instruments</u>
As of December 31, 2016, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$4.76 million, terms ranging from 31 to 36 days, and weighted average forward rate of ₱49.72.

As of December 31, 2015, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$0.11 million, terms ranging from 30 to 35 days, and weighted average forward rate of ₱47.06.

In 2016, 2015 and 2014, total gain (loss) on currency forwards recorded under 'Trading and securities gain (loss) - others' in the statements of income amounted to ₱7.68 million, ₱3.25 million, and ₱2.53 million, respectively (see Note 27).

26. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company for its customers in its fiduciary or agency capacity are not included in the statements of financial position since these are not assets of the Parent Company. Total assets held by the Parent Company's trust department amounted to ₱5.68 billion and ₱5.59 billion as of December 31, 2016 and 2015, respectively (see Note 25).

As of December 31, 2016 and 2015, government securities (included under investment securities at amortized cost) owned by the Parent Company with total face value of ₱70.00 million are deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

Income from the Parent Company's trust operations shown under 'Income from trust operations' in the statements of income amounted to ₱16.86 million, ₱18.30 million and ₱19.06 million in 2016, 2015 and 2014, respectively.

27. Income on Investment Securities

Interest income on investment securities follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Investment securities at amortized cost	**₱593,571**	₱580,657	₱774,727	**₱593,571**	₱580,657	₱774,712
Financial assets at FVTPL	**82,445**	48,306	23,442	**82,445**	48,306	23,442
	₱676,016	₱628,963	₱798,169	**₱676,016**	₱628,963	₱798,154

In 2016, 2015 and 2014, the Parent Company's peso-denominated investment securities earned annual interest rates ranging from 2.13% to 8.13%, 1.63% to 9.13%, and 0.01% to 12.37%, respectively, while dollar-denominated investment securities earned annual interest rates ranging from 2.63% to 10.63%, 3.95% to 9.50%, and 3.19% to 8.41%, respectively.

The Group's and the Parent Company's trading and securities gain (loss) - net follows:

	2016	2015	2014
Financial assets at FVTPL	**₱40,656**	(₱43,718)	₱59,432
Derivatives (Note 25)	**7,683**	3,253	2,525
	₱48,339	(₱40,465)	₱61,957

28. **Employee Benefits**

The existing regulatory framework, RA No. 7641, *The Retirement Pay Law*, requires companies with at least 10 employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

<u>Defined Benefit Plans</u>

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its officers and regular employees. The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and unfunded actuarial accrued liability. The retirement plan provides a retirement benefit based on applicable percentage of salary (100% - 150%) depending on the number of years of service (minimum of five years), a fraction of a month being considered as one whole month. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust and Wealth Management Group (TWMG) under the supervision of the Retirement Board.

BDI

BDI has three funded, noncontributory defined benefit retirement plans that were created in 1990, 2009 and 2012. The 1990 and 2009 retirement plans cover employees who have rendered full-time service for at least 10 years and provide benefits that are based only on years of service and final compensation. The 2012 plan cover substantially all of the Bank's officers and regular employees and provides benefits that are based on employee age, years of service and final compensation. BDI's retirement plans provide retirement benefits equal to 100% of the final regular monthly salary for every year of service.

In 2015, the plan assets of BDI's retirement plans were transferred to the Parent Company's TWMG. BDI's retirement plans are administered by the Parent Company's TWMG under the supervision of BDI's Retirement and Provident Fund Committee.

RBNI

RBNI has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on employee age, years of service and final compensation. The retirement plan provides retirement benefits equal to 50% of the final monthly salary for every year of service. RBNI's retirement plan is in the form of a trust administered by a local bank.

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2016.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2016 and 2015:

	2016		2015	
	Fair Value of Plan Assets	**Present Value of Obligation**	Fair Value of Plan Assets	Present Value of Obligation
Parent Company	**₱401,148**	**₱452,927**	₱374,103	₱503,577
BDI	**14,948**	**13,612**	12,314	9,832
RBNI	**7,415**	**11,947**	8,425	12,524
	₱423,511	**₱478,486**	₱394,842	₱525,933

The amounts relating to the defined benefit retirement plans are presented in the statements of financial position as follows:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Retirement asset* (Note 17)	**₱1,336**	₱2,482	**₱–**	₱–
Retirement liability** (Note 21)	**56,311**	133,573	**51,779**	129,474
Net retirement liability	**₱54,975**	₱131,091	**₱51,779**	₱129,474

** Included in 'Other assets'*
*** Included in 'Accrued interest, taxes and other expenses'*

Changes in the present value of the defined benefit obligations as of December 31, 2016 and 2015 are as follows:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Balance at January 1	**₱525,933**	₱591,983	**₱503,577**	₱572,536
Current service cost	**78,320**	85,171	**75,524**	83,147
Interest cost	**26,728**	28,386	**25,682**	27,482
Remeasurement losses (gains):				
Actuarial losses (gains) arising from deviations of experience from assumptions	**(61,615)**	3,838	**(62,723)**	(79,484)
Actuarial gains arising from changes in financial assumptions	**(31,891)**	(97,606)	**(32,118)**	(17,550)
Benefits paid	**(58,989)**	(85,839)	**(57,015)**	(82,554)
Balance at December 31	**₱478,486**	₱525,933	**₱452,927**	₱503,577

Changes in the fair value of the plan assets as of December 31, 2016 and 2015 are as follows:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Balance at January 1	**₱394,842**	₱357,442	**₱374,103**	₱343,281
Contributions	**84,525**	101,635	**82,127**	94,153
Interest income	**20,078**	17,137	**19,079**	16,477
Return on plan assets (excluding interest income)	**(16,945)**	4,467	**(17,146)**	2,746
Benefits paid	**(58,989)**	(85,839)	**(57,015)**	(82,554)
Balance at December 31	**₱423,511**	₱394,842	**₱401,148**	₱374,103

The fair values of plan assets by class as at the end of the reporting periods are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cash and cash equivalents	**₱222,354**	₱170,336	**₱219,048**	₱163,488
Debt instruments:				
Philippine government	**58,251**	84,609	**53,587**	80,569
Financial intermediaries	**20,068**	31,655	**20,068**	31,655
Holding firms	**17,554**	17,258	**17,040**	16,768
Power, electricity and water distribution	**14,377**	14,948	**14,377**	14,948
Real estate	**10,765**	11,010	**10,244**	10,496
Equity instruments:				
Holding firms	**37,350**	22,653	**29,627**	21,298
Real estate	**9,049**	8,547	**7,939**	8,547
Transportation, storage and communication	**8,910**	8,747	**8,046**	7,703
Wholesale and retail trade	**5,448**	4,848	**5,448**	4,848
Financial intermediaries	**4,552**	9,443	**4,552**	9,443
Food, beverage and tobacco	**–**	5,260	**–**	–
Power, electricity and water distribution	**3,832**	3,147	**3,832**	3,147
Manufacturing	**1,784**	–	**–**	–
Mining and quarrying	**1,142**	1,101	**39**	41
Casino and gaming	**308**	–	**308**	–
Restaurants	**194**	–	**194**	–
Oil and gas	**149**	–	**149**	–
Others	**7,424**	1,280	**6,650**	1,152
	₱423,511	₱394,842	**₱401,148**	₱374,103

The Group's plan assets are carried at fair value. All equity and debt instruments have quoted prices in an active market. The fair values of other assets and liabilities, which include amounts due from BSP and other banks, accrued interest and other receivables and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments and are not exposed to concentration risk.

The Group and the Parent Company expect to contribute ₱107.46 million and ₱106.96 million, respectively, to the defined retirement benefit plans in 2017.

The cost of defined benefit retirement plans, as well as the present value of the benefit obligations, are determined using actuarial valuations, which involve making various assumptions. The principal assumptions used are shown below:

	Parent Company		BDI		RBNI	
	2016	2015	**2016**	2015	**2016**	2015
Discount rate:						
At January 1	**5.10%**	4.80%	**5.13%**	4.67%	**4.24%**	4.60%
At December 31	**5.70%**	5.10%	**4.87%**	5.13%	**4.78%**	4.90%
Salary increase rate	**7.00%**	7.00%	**5.00%**	5.00%	**5.00%**	5.00%
Average remaining working life	**13**	13	**15**	15	**12**	11

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption as of December 31, 2016 and 2015, assuming all other assumptions were held constant:

	Increase (Decrease) in Defined Benefit Obligation			
	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Increase in discount rate of 0.50%	**(₱25,875)**	(₱28,499)	**(₱24,330)**	(₱27,254)
Decrease in discount rate of 0.50%	**28,274**	31,161	**26,528**	29,787
Increase in salary increase rate of 0.50%	**25,824**	28,336	**24,239**	27,064
Decrease in salary increase rate of 0.50%	**(23,938)**	(26,227)	**(22,490)**	(25,062)

The amounts of defined benefit cost included in the statements of other comprehensive income as 'Remeasurement of defined benefit liability', gross of tax, follow:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Actuarial gains (losses) on benefit obligation	**₱93,506**	₱93,768	(₱16,954)	**₱94,841**	₱97,034	(₱15,821)
Return on plan assets (excluding interest income)	**(16,945)**	4,467	(17,197)	**(17,146)**	2,746	(17,246)
Remeasurement gains (losses) in OCI	**₱76,561**	₱98,235	(₱34,151)	**₱77,695**	₱99,780	(₱33,067)

The amounts of retirement cost included in the statements of income follow:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current service cost*	**₱78,320**	₱85,171	₱66,475	**₱75,524**	₱83,147	₱66,045
Net interest expense**	**6,650**	11,249	11,761	**6,603**	11,005	11,699
Retirement cost	**₱84,970**	₱96,420	₱78,236	**₱82,127**	₱94,152	₱77,744

**Included under 'Compensation and fringe benefits' in the statements of income*
***Included under 'Interest and finance charges - bills payable, borrowings and others' in the statements of income*

Collective Bargaining Agreement (CBA)
All rank and file employees are covered by a 2-year CBA signed on June 10, 2016 with effect until December 31, 2017. There had been neither dispute nor occurrence of employees' strike for the past years.

Defined Contribution Plans
Parent Company
The Parent Company employs a provident fund scheme where the Parent Company and its covered employees shall contribute 11% and 5% of the employees' basic monthly salary, respectively. Contributions are maintained under the Provident Fund account administered by the Parent Company's TWMG under the supervision of the Retirement Board. As approved by the Parent Company's BOD on November 27, 2013, new officers hired after December 31, 2013, except those whose terms of employment have been negotiated prior to December 1, 2013, are no longer eligible for inclusion in the Parent Company's provident fund. The Parent Company's BOD, in its meeting held on January 27, 2016, approved a change in vesting for the retirement fund from 5 to 10 years effective for all new hires who sign up starting February 1, 2016.

Contributions paid and accrued by the Parent Company to the fund are recognized under 'Compensation and fringe benefits' in the statements of income amounted to ₱124.66 million, ₱141.87 million and ₱150.11 million in 2016, 2015 and 2014, respectively.

BDI
In addition to its defined benefit plans, BDI also employs three contributory funds where BDI and its covered employees shall both contribute 5% of the employees' regular monthly salary.

Contributions paid and accrued by BDI to the funds recognized in the statements of income under 'Compensation and fringe benefits' amounted to ₱2.45 million and ₱1.75 million in 2016 and 2015, respectively.

29. Long-term Leases

The Group leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 20 years and renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear annual rent increase of 5.00% - 10.00%.

Rent expense charged by the Group to current operations (included under 'Occupancy and other equipment-related costs' in the statements of income) amounted to ₱170.28 million, ₱175.2 million, and ₱148.61 million in 2016, 2015 and 2014, respectively. For the years ended December 31, 2016, 2015 and 2014, total rentals charged to operations by the Parent Company amounted to ₱170.28 million, ₱169.41 million and ₱147.09 million, respectively.

Future minimum rentals payable under noncancellable operating leases are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱124,721**	₱128,051	**₱119,560**	₱122,070
Beyond one year but not more than five years	**184,433**	218,234	**177,514**	211,330
Beyond five years	**2,304**	2,022	–	1,740
	₱311,458	₱348,307	**₱297,074**	₱335,140

The Parent Company has also entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years. The Parent Company recognized rent income, included under 'Rent income' in the statements of income, amounting to ₱452.80 million, ₱384.15 million, and ₱301.43 million in 2016, 2015 and 2014, respectively.

Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱531,278**	₱388,347	**₱531,278**	₱388,047
Beyond one year but not more than five years	**1,142,701**	700,145	**1,142,701**	699,920
Beyond five years	–	43,301	–	43,301
	₱1,673,979	₱1,131,793	**₱1,673,979**	₱1,131,268

30. **Miscellaneous Expenses**

This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Information technology	**₱85,433**	₱90,619	₱58,517	**₱78,954**	₱84,139	₱56,425
Transaction dues	**34,682**	34,570	27,553	**34,108**	34,137	27,547
Fines, penalties and other charges	**32,549**	41,388	20,680	**32,487**	41,341	20,383
Brokerage fees	**20,638**	4,889	4,550	**20,638**	4,889	4,550
Stationery and supplies	**20,217**	21,456	20,896	**17,027**	18,417	20,853
Fuel and lubricants	**15,893**	19,445	19,920	**13,863**	16,716	19,121
Litigation and assets acquired - related expenses	**13,781**	11,553	14,672	**12,845**	10,482	14,218
Travel	**11,375**	12,827	19,171	**6,127**	6,670	16,851
Advertising	**8,977**	4,340	35,587	**7,467**	2,600	34,975
Freight	**4,167**	4,277	7,262	**4,139**	4,220	7,251
Others	**76,001**	47,025	56,687	**61,888**	43,494	47,755
	₱323,713	₱292,389	₱285,495	**₱289,543**	₱267,105	₱269,929

Others include account maintenance charges, contractual services, and Philippine Dealing Exchange Corp. transaction fees.

31. **Income and Other Taxes**

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income), as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and DST. Income taxes include corporate income tax, as discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the statements of income.

RA No. 9397, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

An MCIT of 2.00% of modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

In 2011, the BIR issued Revenue Regulations (RR) 14-2011, which prescribes the proper allocation of costs and expenses among the income earnings of financial institutions for income tax reporting. Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to the RCIT. All costs and expenses pertaining to the FCDU/EFCDU are excluded from the RBU's taxable income. Within the RBU, common costs and expenses should be allocated among taxable income, tax-paid income and tax-exempt income using the specific identification or the allocation method.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current:						
Final	**₱142,951**	₱141,202	₱179,650	**₱142,443**	₱140,719	₱179,649
MCIT	**–**	39,573	27,722	**–**	39,522	27,722
RCIT	**101,070**	31,237	14,108	**69,412**	–	171
	244,021	212,012	221,480	**211,855**	180,241	207,542
Deferred	**(9,200)**	274,324	78,073	**(5,629)**	275,920	81,407
	₱234,821	₱486,336	₱299,553	**₱206,226**	₱456,161	₱288,949

Components of deferred tax assets and liabilities follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax assets:				
Allowance for credit and impairment losses	**₱510,401**	₱493,645	**₱472,457**	₱472,457
Excess of MCIT over RCIT	**12,163**	–	**12,163**	–
Unearned discounts and capitalized interest	**21,258**	26,914	**–**	–
Accrued expenses	**–**	2,162	**–**	–
Unamortized past service cost	**1,031**	1,159	**–**	–
Remeasurement losses on defined benefit plans	**884**	1,027	**–**	–
Accumulated depreciation on foreclosed properties	**41**	41	**–**	–
Accumulated impairment loss on foreclosed assets	**38**	–		
	₱545,816	₱524,948	**₱484,620**	₱472,457
Deferred tax liabilities:				
Fair value gain on investment properties	**₱956,738**	₱872,404	**₱938,325**	₱862,696
Revaluation increment credited to surplus free	**399,979**	399,979	**399,979**	399,979
Revaluation increment on land	**120,111**	120,111	**119,761**	119,761
Branch licenses acquired from business combination	**78,870**	78,870	**–**	–
Excess of fair value over carrying value of the net assets acquired from business combination	**34,103**	34,972	**–**	–
Unamortized transaction cost on bills payable				
Net retirement asset of BDI	**401**	1,191	**–**	–
Unrealized foreign exchange gain	**1,420**	1,420	**1,420**	1,420
	₱1,591,622	₱1,508,947	**₱1,459,485**	₱1,383,856

Deferred tax assets and liabilities are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax assets	**₱59,717**	₱49,545	**₱–**	₱–
Deferred tax liabilities	**1,105,523**	1,033,544	**974,865**	911,399

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. In assessing the realizability of its deferred tax assets, the Group considers projected future taxable income, reversal of temporary differences, and tax planning strategies.
The Group assessed that not all of its deferred tax assets may be realized in the future. Accordingly, the Group did not set up deferred tax assets on the following NOLCO and temporary differences:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Allowance for credit and impairment losses	**₱1,436,514**	₱1,104,873	**₱1,128,795**	₱783,768
NOLCO	**48,026**	246,034	**–**	193,430
Retirement liability	**56,310**	133,573	**51,778**	129,474
Unamortized past service cost	**58,270**	57,109	**58,270**	57,109
Advance rental income	**87,415**	51,167	**87,415**	51,167
Accrued deductible taxes	**–**	27,247	**–**	27,247
Excess of MCIT over RCIT	**144**	81,375	**–**	81,278
	₱1,686,679	₱1,701,378	**₱1,326,258**	₱1,323,473

Details of the Group's NOLCO are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2014	₱186,038	₱167,782	₱–	₱18,256	2017
2015	43,875	25,649	–	18,226	2018
2016	11,544	–	–	11,544	2019
	₱241,457	₱193,431	₱–	₱48,026	

Details of the Parent Company's NOLCO are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2014	₱167,782	₱167,782	₱–	₱–	2017
2015	25,648	25,648	–	–	2018
	₱193,430	₱193,430	₱–	₱–	

Details of the Group's MCIT are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2013	₱14,097	₱14,097	₱–	₱–	2016
2014	27,758	27,722	–	36	2017
2015	39,462	27,277	–	12,185	2018
2016	86	–	–	86	2019
	₱81,403	₱69,096	₱–	₱12,307	

Details of the Parent Company's MCIT are as follow:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2013	₱14,097	₱14,097	₱–	₱–	2016
2014	27,722	27,722	–	–	2017
2015	39,439	27,276	–	12,163	2018
	₱81,258	₱69,095	₱–	₱12,163	

A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Statutory income tax	**₱190,410**	₱207,005	₱123,030	**₱181,883**	₱176,474	₱121,757
Tax effects of:						
Nondeductible expenses and others	**105,768**	301,101	314,243	**89,250**	225,043	305,680
Nontaxable income	**(27,816)**	(26,199)	(35,506)	**(36,958)**	46,573	(35,506)
Interest income subjected to final tax	**34,560**	(28,272)	(54,278)	**34,940**	(28,031)	(54,171)
FCDU income before income tax	**(6,830)**	(60,255)	(8,137)	**(6,830)**	(60,255)	(8,137)
Expired NOLCO	**–**	56,236	–	**–**	56,236	–
Changes on unrecognized deferred tax assets	**(61,271)**	36,720	(39,799)	**(56,059)**	40,121	(40,674)
Effective income tax	**₱234,821**	₱486,336	₱299,553	**₱206,226**	₱456,161	₱288,949

32. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Parent Company's related parties include key management personnel, close family members of key management personnel, affiliates (that is, entities which are controlled, significantly influenced by or for which significant voting power is held by the Parent Company or key management personnel or their close family members and retirement plan for the benefit of the Group's employees).

The Parent Company has business relationships with certain related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has a business relationship with its defined benefit and contribution plans, which it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company. Income earned by the Parent Company (presented as part of 'Income from trust operations' in the statements of income) from such services amounted to ₱4.46 million in 2016, ₱4.89 million in 2015 and ₱4.39 million in 2014. Total deposits maintained by the related party retirement plans with the Parent Company amounted to ₱97.86 million and ₱85.57 million as of December 31, 2016 and 2015, respectively.

Key Management Personnel

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. The Parent Company considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2016	2015	2014
Short-term benefits	**₱174,879**	₱120,812	₱160,244
Post-employment benefits	**7,848**	8,223	13,894
	₱182,727	₱129,035	₱174,138

Details on significant related party transactions of the Parent Company follow:

	2016		
Category	**Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant investors:			
Deposit liabilities	**₱2,580,918**	**₱2,584,302**	Savings and time deposit accounts with annual
Interest expense	**8,304**	–	interest rates ranging from 0.13% to 3.50%.
Rent expense	**17,650**	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	**1,822**	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%
Affiliate:			
Deposit liabilities	**6,718**	**14,810**	Demand, savings and time deposit accounts with
Interest expense	**331**	–	annual interest rates ranging from 0.13% to 1.50%.
Rent income	**146**	–	Five-year lease expiring in July 2018, with 5% annual escalation
Subsidiaries:			
Deposit liabilities	**38,308**	**119,464**	Demand and savings deposit accounts with annual
Interest expense	**2,855**	–	interest rates ranging from 0.13% to 0.50%.
Interbank loans receivable	–	–	Interbank term loans with subsidiary with annual
Interest income	–	–	interest rates ranging from 5.25% to 6.25% and terms of 18 to 91 days
Rent income	**126**	–	One and half year lease expiring on December 2016, fixed rental rate during the entire term of the contract
Key management personnel:			
Deposit liabilities	**5,263**	**10,191**	Savings and time deposit accounts with annual
Interest expense	**16**	–	interest rates ranging from 0.13% to 3.50%.
Receivable from customers	–	–	Personal loans with average interest rate of 7.00%
Interest income	–	–	and average term of 3 years.
Provident fund:			
Deposit liabilities	**5,256**	**37,855**	Savings and time deposit accounts with annual
Interest expense	**574**	–	interest rates ranging from 0.13% to 3.25%.
Trust fee	**2,479**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	**7,035**	**60,011**	Savings and time deposit accounts with annual
Interest expense	**739**	–	interest rates ranging from 0.13% to 3.25%.
Trust fee	**1,983**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2015		
Significant investors:			
Deposit liabilities	(₱1,981,394)	₱3,483	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	12,522	–	
Rent expense	15,143	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	2,839	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%
Affiliate:			
Deposit liabilities	(3,696)	8,067	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 1.50%.
Interest expense	173	–	
Rent income	133	–	Five-year lease expiring in July 2018, with 5% annual escalation
Subsidiaries:			
Deposit liabilities	(170,574)	101,409	Demand and savings deposit accounts with annual interest rates ranging from 0.13% to 0.50%.
Interest expense	2,450	–	
Interbank loans receivable	617,000	–	Interbank term loans with subsidiary with annual interest rates ranging from 5.25% to 6.25% and terms of 18 to 91 days
Interest income	(7,602)	–	
Rent income	126	–	One and half year lease expiring on December 2015, fixed rental rate during the entire term of the contract
Key management personnel:			
Deposit liabilities	22,872	63,796	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	603	–	
Receivable from customers	(28)	376	Personal loans with average interest rate of 7.00% and average term of 3 years.
Interest income	(39)	–	
Provident fund:			
Deposit liabilities	27,229	32,599	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	498	–	
Trust fee	2,955	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	52,953	52,976	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	537	–	
Trust fee	1,940	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2014		
Significant investors:			
Deposit liabilities	₱1,923,880	₱2,081,610	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.00%.
Interest expense	8,541	–	
Rent expense	7,251	–	Branch office space leased for five years ending on December 18, 2016, with 5% annual escalation.
Rent income	3,713	–	Five-year lease of branches, subject for pre-termination with average escalation rate of 7.5%
Affiliate:			
Deposit liabilities	1,794	11,703	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 2.00%.
Interest expense	20	–	
Rent income	123	–	Ten-year lease that expired on July 31, 2013, fixed rental rate during the entire term of the contract, renewed in August 2013 for another ten years.

(Forward)

Category	2014 Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries:			
Deposit liabilities	₱–	₱263,937	Demand and savings deposit accounts with annual
Interest expense	1,197	–	interest rate of 0.13%
Interest income	(54)	–	Demand, savings and time deposits with a subsidiary closed as of December 31, 2014
Key management personnel:			
Deposit liabilities	551,930	623,983	Savings and time deposit accounts with annual
Interest expense	7,319	–	interest rates ranging from 0.13% to 3.50%.
Receivable from customers	328	1,781	Personal loans with average interest rate of
Interest income	101	–	32.90% and average term of 3 years.
Provident fund:			
Deposit liabilities	(20,350)	5,370	Savings and time deposit accounts with annual
Interest expense	539	–	interest rates ranging from 0.13% to 3.25%.
Trust fee	2,780	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	(11,759)	23	Savings and time deposit accounts with annual
Interest expense	197	–	interest rates ranging from 0.13% to 3.25%.
Trust fee	1,607	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Other Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. The Parent Company has not recorded any impairment losses relating to amounts owed by related parties.

Regulatory Reporting

As required by BSP, the Parent Company discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to Circular No. 423, and new DOSRI loans, other credit accommodations and guarantees granted under said circular:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Total outstanding DOSRI loans	**₱22,017**	₱29,458	**₱16,291**	₱24,336
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**22,017**	29,458	**16,291**	24,336
New DOSRI loans granted under Circular No. 423	**–**	–	**–**	–
Total outstanding non-DOSRI loans prior to Circular No. 423	**43,786,263**	33,131,079	**41,639,810**	30,937,625
Percent of DOSRI loans to total loans	**0.05%**	0.09%	**0.04%**	0.08%
Percent of unsecured DOSRI loans to total DOSRI loans	**45.70%**	53.84%	**61.76%**	65.18%
Percent of past due DOSRI loans to total DOSRI loans	**26.38%**	18.07%	**0.51%**	0.83%
Percent of nonperforming DOSRI loans to total DOSRI loans	**26.38%**	17.95%	**0.51%**	0.68%

The amounts of loans and receivables disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2016 and 2015, the Parent Company is in compliance with these requirements.

Any violation of the provisions of BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

33. **Financial Performance**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	**₱400,052**	₱203,301	₱110,957
Weighted average number of common shares outstanding (Note 24)	**299,565**	299,565	299,565
Basic/Diluted earnings per share	**₱1.34**	₱0.68	₱0.37

As of December 31, 2016, 2015 and 2014, there are no outstanding dilutive potential common shares.

The following basic ratios measure the financial performance of the Group and of the Parent Company:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Return on average equity	**4.06%**	2.52%	1.95%	**4.06%**	1.63%	2.06%
Return on average assets	**0.49%**	0.28%	0.16%	**0.51%**	0.18%	0.17%
Net interest margin	**4.42%**	4.32%	3.92%	**4.11%**	3.87%	3.86%

34. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2016, 2015 and 2014 follow:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015 As restated - Note 2)	2014 As restated - Note 2)
Interbank loans receivables and SPURA shown under statements of cashflows	**₱260,411**	₱229,281	₱743,164	**₱260,411**	₱229,281	₱743,164
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**49,720**	–	89,440	**49,720**	–	89,440
	₱310,131	₱229,281	₱832,604	**₱310,131**	₱229,281	₱832,604

The following is a summary of noncash activities:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Noncash operating activity:						
Additions to investment properties from settlement of loans (Note 15)	**₱87,849**	₱38,538	₱115,882	**₱87,849**	₱30,810	₱115,882
Noncash investing activities:						
Increase in land due to revaluation (Note 14)	–	29,971	24,278	–	28,806	24,278
Transfer to property and equipment from investment properties (Notes 14 and 15)	–	18,702	(339,077)	–	18,702	(339,077)

35. Approval for Release of the Financial Statements

The financial statements were authorized for issue by the BOD of the Parent Company on March 29, 2017.

36. Events after the Statement of Financial Position Date

The BSP has directed the Parent Company to align the FRP, which it submits to the BSP, and the Audited Financial Statements by changing its accounting treatment for investment properties from the fair value model to the cost model. The Parent Company has requested for BSP approval for a grace period until 2018 within which to effect the change. The said request for regulatory relief is now being assessed by the BSP. The Parent Company has provided the requirements for BSP's assessment and expects that the request will be taken up with the Monetary Board by the second quarter of 2017. Refer to Note 15 for impact had the Parent Company adopted the cost model.

37. **Standards Issued but not yet Effective**

The standards and interpretation that are issued but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. Unless otherwise stated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the Group's financial statements.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 consolidated and Parent Company financial statements of the Group and the Parent Company, respectively.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior

periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. The amendments allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than statement of income, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. The amendments also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non - monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions

for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 was issued by International Accounting Standards Board in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

<u>Effective beginning on or after January 1, 2019</u>

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their statement of income. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

38. Supplementary Information Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2016:

GRT	₱198,412
DST	155,130
Local taxes	19,656
Fringe benefit taxes	3,417
Others	994
	₱377,609

Withholding Taxes
Details of total remittances in 2016 and outstanding balance of withholding taxes as of December 31, 2016 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱184,625	₱13,966
Withholding taxes on compensation and benefits	167,533	10,378
Expanded withholding taxes	69,649	5,198
	₱421,807	₱29,542

Tax Assessments and Cases
As of December 31, 2016, the Group has outstanding cases filed in courts for various claims for tax refund amounting to ₱283.81 million reported under 'Other assets' in the statement of financial position.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Bank of Communications and subsidiaries (the "Group") and the parent company financial statements of Philippine Bank of Communications (the "Parent Company") as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 29, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-3 (Group A),
February 9, 2016, valid until February 8, 2019
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908660, January 3, 2017, Makati City

March 29, 2017

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2016

PHILIPPINE BANK OF COMMUNICATIONS
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2016

Unappropriated Retained Earnings, beginning	(8,219,775)
Adjustments:	
Add: Net income actually earned/realized during the period	
Net income during the period closed to retained earnings	400,052
Less: Non-actual/unrealized income net of tax	
Fair value adjustment of Investment Property	176,467
Add: Non actual losses	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equ	(11,474)
Net Income Actual/Realized	212,111
Total Retained Earnings, End	(8,007,664)
Available for Dividend	(8,007,664)

Philippine Bank of Communications and Subsidiaries
SCHEDULE A. Financial Assets
As of December 31, 2016

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income accrued
(i)		(ii)	(iii)	
Financial assets at Fair Value through Profit or Loss				
First Gen Corp.	109,384	112,469	112,469	2,109
Republic of the Phlippines	200,000	188,014	188,014	2,256
	309,384	**300,483**	**300,483**	**4,364**
Investment Securities at Amortized Cost				
Republic of the Phlippines	8,679,120	11,303,468	10,366,458	129,343
First Pacific Co.	986,793	1,000,099	1,005,373	11,650
Indonesian Government	207,830	206,984	208,686	3,004
JG Summit	380,905	374,941	387,845	7,314
8990 Holdings	250,000	250,001	253,454	3,233
	10,504,647	**13,135,494**	**12,221,816**	**154,544**
Unquoted debt securities calssified as loans				
Nat Grid Corp	1,275,000	1,275,000	1,253,597	31,177
Atlantic	331,323	331,323	318,383	5,641
MRT III	1,551,050	1,551,050	2,184,899	0
	3,157,373	**3,157,373**	**3,756,880**	**36,818**
Financial Assets at Fair Value Through Other Comprehensive Income				
Philippine Central Depository, Inc.	21,126	2,113	2,113	**-**
Bancnet, Inc.	50,000	5,845	5,845	-
Philippine Clearing House Corp.	21,000	2,100	2,100	-
Philippine Dealing System Holding Corporati	12,500	1,250	1,250	-
Club Filipino	1	185	185	-
Tagaytay Golf and Country Club	1	0	0	-
Valley Golf Club	2	410	410	-
WackWack Golf and Country Club	2	40,000	40,000	-
Metropolitant Club	1	225	225	-
Tower Club	1	115	115	-
		52,242	**52,242**	**0**

(i)	*Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a)securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by the others for which the amounts in the aggregate are not more than two percent of total assets.*
(ii)	*State the basis of determining the amounts shown in the column. This column shall be totalled to correspond to the respective balance sheet caption or captions.*
(iii)	*This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.*

Philippine Bank of Communications and Subsidiaries

SCHEDULE B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

As of December 31, 2016

	Name and Designation of Debtor	Ending Balance as of December 31, 2015	Additions	Amounts Collected	Amounts written off	Current	Not Current	Ending Balance as of December 31, 2016
		NONE TO REPORT						

(i)	*Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.*
(ii)	*If collection was other than in cash, explain.*
(iii)	*Give reasons for write off.*

Philippine Bank of Communications and Subsidiaries

SCHEDULE C. Amounts Receivable from Related Parties which are elimated during the consolidation of Financial Statements

As of December 31, 2016

	Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
				(i)	(ii)			
1	PBCom Insurance Services Agency	3,933	2,876	(5,955)	-	855		855
(i)	*If collection was other than in cash, explain.*							
(ii)	*Give reasons for write off.*							

Philippine Bank of Communications and Subsidairies
SCHEDULE D. Intangible Assets - Others Assets
As of December 31, 2016

	Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
	(i)		(ii)	(ii)		(iii)	
	Branch License	365,300	-	-		-	365,300
	Software Cost	459,516	32,984	(76,634)			415,866
(i)	*The information required shall be grouped into (a) intangibles shown under the caption in intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.*						
(ii)	*For each change representing anything other than an acquisition, clearly state the nature of the change and other accounts affected. Describe cost of additions representing other than cash expenditures.*						
(iii)	*If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.*						

Philippine Bank of Communications and Subsiadiaries
SCHEDULE E. Long Term Debt
As of December 31, 2016

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long Term Debt" in related balance sheet	Interest Rate	Maturity Date
(i)		(ii)	(iii)		
NONE TO REPORT					
(i) Include in this column each type of obligation authorized.					
(ii) This column is to be totaled to correspond to the related balance sheet caption.					
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.					

Philippine Bank of Communications and Subsidiaries
SCHEDULE F. Indebtedness to Related Parties (Long-Term Loans from Related companies)
As of December 31, 2016

	Name of related party	Balance at beginning of period	Balance at end of period
	(i)		(ii)
	NONE TO REPORT		
(i)	*The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.*		
(ii)	*For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.*		

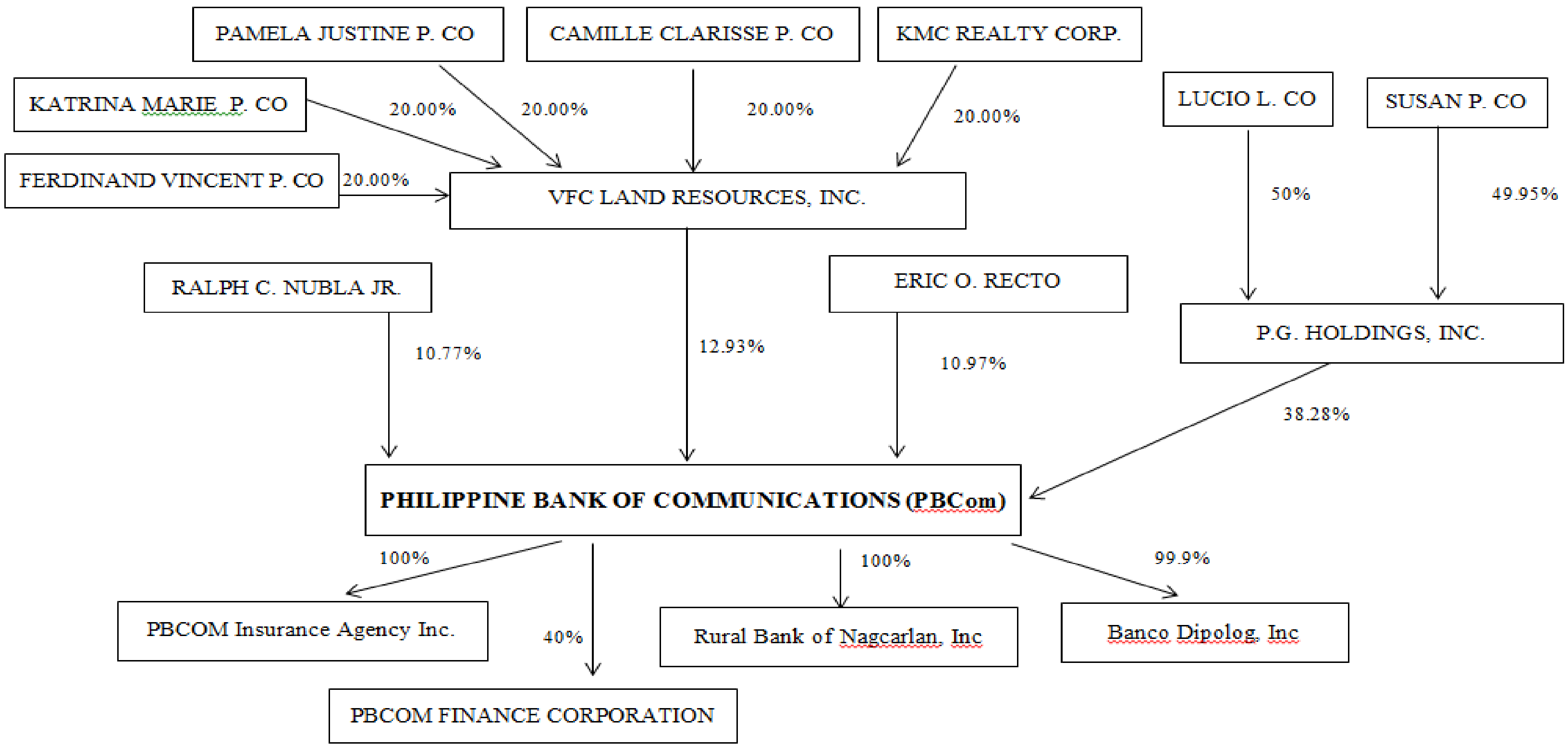
Philippine Bank of Communications and Subsidiaries
SCHEDULE G. Guarantees of Securities of Other Issuers
As of December 31, 2016

	Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
			(i)		(ii)
	NONE TO REPORT				
(i)	*Indicate in a note any sinificant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.*				
(ii)	*There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", Guarantee of interest", or Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.*				

Philippine Bank of Communications and Subsidiaries
SCHEDULE H. Capital Stock
As of December 31, 2016

	Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
	(i)				(ii)		(iii)
	COMMON	760,000,000	480,645,163			362,050,209	
(i)	*Include in this column each type of issue authorized.*						
(ii)	*Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.*						
(iii)	*Indicate in a note any significant changes since the date of the last balance sheet filed.*						

PHILIPPINE BANK OF COMMUNICATIONS
CONGLOMERATE MAP/ORGANIZATIONAL STRUCTURE
AS OF DECEMBER 31, 2016



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
PFRSs Practice Statement Management Commentary		√		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	√		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	√		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			√
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			√
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			√
	Amendments to PFRS 1: Government Loans	√		
PFRS 2	Share-based Payment			√
	Amendments to PFRS 2: Vesting Conditions and Cancellations			√
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			√
PFRS 3 (Revised)	Business Combinations			√
PFRS 4	Insurance Contracts			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			√
PFRS 6	Exploration for and Evaluation of Mineral Resources			√
PFRS 7	Financial Instruments: Disclosures	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities*	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			√
PFRS 8	Operating Segments	√		
PFRS 9**	Financial Instruments	√		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
PFRS 10	Consolidated Financial Statements	√		
PFRS 11	Joint Arrangements			√
PFRS 12	Disclosure of Interests in Other Entities	√		
PFRS 13	Fair Value Measurement	√		
PFRS 14	Regulatory Deferral Accounts			√
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*	√		
PAS 2	Inventories			√
PAS 7	Statement of Cash Flows	√		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√		
PAS 10	Events after the Reporting Period	√		
PAS 11	Construction Contracts			√
PAS 12	Income Taxes	√		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			√
PAS 16	Property, Plant and Equipment	√		
PAS 16 (Amended)	Property, Plant and Equipment – Clarification of acceptable methods of depreciation	√		
PAS 17	Leases	√		
PAS 18	Revenue	√		
PAS 19	Employee Benefits	√		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√		
PAS 19 (Amended)	Employee Benefits	√		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		Not Early Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	√		
PAS 21	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment: Net Investment in a Foreign Operation	√		
PAS 23 (Revised)	Borrowing Costs			√
PAS 24 (Revised)	Related Party Disclosures	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			√
PAS 27	Consolidated and Separate Financial Statements	√		
PAS 27 (Amended)	Separate Financial Statements	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 28	Investments in Associates			√
PAS 28 (Amended)	Investments in Associates and Joint Ventures			√
PAS 29	Financial Reporting in Hyperinflationary Economies			√
PAS 31	Interests in Joint Ventures			√
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendment to PAS 32: Classification of Rights Issues			√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	√		
PAS 33	Earnings per Share	√		
PAS 34	Interim Financial Reporting			√
PAS 36	Impairment of Assets	√		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√		
PAS 38	Intangible Assets	√		
PAS 38 (Amended)	Intangible Assets – Calcification of acceptable methods of amortization	√		
PAS 39	Financial Instruments: Recognition and Measurement	√		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			√
	Amendments to PAS 39: The Fair Value Option			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	√		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	√		
	Amendment to PAS 39: Eligible Hedged Items			√
PAS 40	Investment Property	√		
PAS 41	Agriculture			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			√
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			√
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			√
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			√
IFRIC 8	*Scope of PFRS 2*			√
IFRIC 9	Reassessment of Embedded Derivatives	√		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	√		
IFRIC 10	*Interim Financial Reporting and Impairment*			√
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			√
IFRIC 12	Service Concession Arrangements			√
IFRIC 13	Customer Loyalty Programmes			√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			√
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			√
IFRIC 17	Distributions of Non-cash Assets to Owners			√
IFRIC 18	Transfers of Assets from Customers			√
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			√
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC 12	Consolidation - Special Purpose Entities			√
	Amendment to SIC 12: Scope of SIC 12			√
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			√
SIC-15	Operating Leases - Incentives			√
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			√
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			√
SIC-29	Service Concession Arrangements: Disclosures.			√
SIC-31	Revenue - Barter Transactions Involving Advertising Services			√
SIC-32	Intangible Assets - Web Site Costs			√

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

	2016 (Conso)	2015 (Conso)
LIQUIDITY RATIOS		
Liquid assets	49.40%	52.14%
Liquid Assets	31,193,794	30,399,017
Total Deposits	63,145,981	58,302,353
Liquid Assets to Total Assets	36.06%	39.96%
Liquid Assets	31,193,794	30,399,017
Total Assets	86,498,733	76,076,316
Loans to Deposit	72.99%	62.61%
Loans and receivables (net)	46,089,438	36,502,141
Total Deposits	63,145,981	58,302,353
SOLVENCY RATIOS		
Debt Ratio	87.54%	88.27%
Total Liabilities	75,716,998	67,152,293
Total Asset	86,498,733	76,076,316
Debt to Equity Ratio	702.27%	752.49%
Total Liabilities	75,716,998	67,152,293
Total Equity	10,781,735	8,924,023
Asset to Equity Ratio	802.27%	852.49%
Total Asset	86,498,733	76,076,316
Total Equity	10,781,735	8,924,023
Interest Rate Coverage Ratio	161.10%	170.87%
Earnings before interest & taxes	1,673,486	1,663,616
Interest Expense	1,038,786	973,598
PROFITABILITY RATIOS		
Return on Assets	0.49%	0.28%
Net Income	399,879	203,682
Average Assets	81,287,525	74,006,050
Return on Equity	4.06%	2.52%
Net Income	399,879	203,682
Average Equity	9,852,879	8,071,251
Net Interest Margin	4.42%	4.32%
Net Interest Income	2,595,954	2,325,968
Average Earning Assets	58,766,295	53,800,616
Cost to Income Ratio	84.34%	83.71%
Total Operating Expenses	3,417,071	3,544,847
Total Operating Income	4,051,771	4,234,865
Net Profit Margin	9.87%	4.81%
Net Income	399,879	203,682
Gross Income	4,051,771	4,234,865
Basic Earnings per Share	1.34	0.68