2016 ANNUAL REPORT

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

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

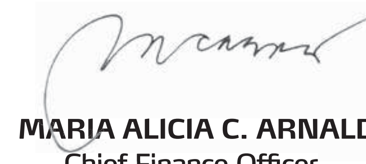
The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

JONATHAN T. GOTIANUN
Chairman of the Board

ANTONIO C. MONCUPA, JR.
President and Chief Executive Officer



MARIA ALICIA C. ARNALDO
Chief Finance Officer

**The Statement of Management's Responsibility for Financial Statements submitted to the Securities and Exchange Commission includes the name and signature of Mr. Jose Emmanuel U. Hilado, Chief Operating Officer and Treasurer. As of publication date of this Annual Report, Mr. Hilado is no longer connected with EastWest Bank.*

The Stockholders and the Board of Directors
East West Banking Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of East West Banking Corporation and its subsidiaries (the Group) and the parent company financial statements of East West Banking Corporation (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 (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.

<u>Applicable to the audit of the Consolidated and Parent Company Financial Statements</u>

Assessment of recoverability of loans and receivables
The Group's and the Parent Company's loans and receivables are significant as they represent 68% and 67% of the total assets of the Group and of the Parent Company, respectively. We considered the Group's and the Parent Company's assessment of recoverability of loans and receivables as a key audit matter as significant judgment by management is required to determine appropriate parameters and assumptions in the calculation of impairment loss. The Group's and the Parent Company's loan portfolios, comprising of corporate and consumer loans, require different approaches in the calculation of loan impairment. Individually significant corporate loans are monitored by management and subjected to specific impairment tests while the other loans, including consumer loans, are grouped together based on credit risk characteristics and subjected to collective impairment assessment. The disclosures relating to assessment of recoverability of loans and receivables are included in Notes 3, 9 and 15 to the financial statements.

Audit Response
We obtained an understanding of the process of assessing recoverability and tested the related controls over data used and calculations done. For loans and receivables subjected to specific impairment tests, we obtained an understanding of the basis of measuring the impairment. We selected samples of loans doubtful of recovery, checked the mathematical accuracy of the impairment calculation, and inquired of the latest developments about the borrowers. 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 the collective assessment of recoverability of loans and receivables, we tested the underlying loan information used in the impairment calculation by agreeing the details to the source information systems. We tested whether the assumptions and parameters in the impairment calculation, such as likelihood of default and recovery rate, are based on historical data. We also checked the mathematical accuracy of the impairment calculation.

Accounting for business combination
As discussed in Note 7 to the financial statements, in 2016 the Parent Company acquired and assumed certain assets and liabilities of a foreign bank which was accounted for as an acquisition of a business. We considered this acquisition as a key audit matter because significant judgment and estimates are involved in the recognition and measurement of the assets acquired and liabilities assumed. As of December 31, 2016, the Parent Company's purchase price allocation for the acquisition is provisional, pending final identification and valuation of intangible assets.

Audit Response
Our audit procedures focused on the identification and valuation of the assets acquired and the liabilities assumed. We evaluated the methodologies and assumptions used by the Parent Company in the determination of the final or provisional values of these identifiable assets and liabilities. We assessed the methodologies used by checking whether the valuation technique is appropriate for the nature of the asset and liability being valued and whether the approach is generally acceptable. We also reviewed the inputs and assumptions used (e.g., discount rates and appraised values) by comparing them with the information obtained such as underlying records of the acquiree, appraisal reports obtained by the Parent Company and prevailing market rates.

Accounting for investment in East West Ageas Life, Inc. and bancassurance access
As discussed in Note 10 to the financial statements, in 2015 the Parent Company and Ageas Insurance International N.V. (Ageas) entered into a joint venture agreement to establish East West Ageas Life Insurance Corporation (EW Ageas Life). The Parent Company also granted an exclusive bancassurance access to EW Ageas Life under a distribution agreement for a period of twenty-years. Upon obtaining all the required regulatory approvals in 2016, the establishment of EW Ageas Life was considered to be fully consummated. The Parent Company then received a consideration from Ageas for the establishment of EW Ageas Life and the granting of an exclusive bancassurance access to EW Ageas Life. We considered this as a key audit matter as the amount of consideration received from Ageas is significant and significant judgment and estimates are involved in accounting for the Parent Company's investment in EW Ageas Life and the valuation of the exclusive bancassurance access granted to EW Ageas Life.

Audit Response
We examined the joint venture agreement between the Parent Company and Ageas and assessed the Parent Company's accounting for its investment in EW Ageas Life and the exclusive bancassurance access granted to EW Ageas Life for compliance with the relevant accounting standards. Our audit procedures also focused on the valuation of the exclusive bancassurance access. We considered the competence, capabilities and objectivity of the valuer engaged by the Parent Company to perform the valuation. We involved our internal specialist in assessing the valuation approach. We also compared the data and valuation multiples (i.e., number of customers and number of branches) used in the valuation to available market or industry data and to the internal data of the Parent Company.

Other Information

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

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

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

Responsibilities of Management and Those Charged with Governance for the 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.

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.

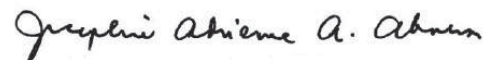
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 35 to the financial statements is presented for purposes 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 East West Banking Corporation. 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.

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

February 23, 2017

	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)				
ASSETS					
Cash and Other Cash Items	**₱6,623,761**	₱5,899,131	**₱6,511,420**	₱5,829,104	₱5,912,309
Due from Bangko Sentral ng Pilipinas (Note 16)	**39,343,143**	30,908,680	**39,019,501**	30,725,169	22,970,798
Due from Other Banks	**6,970,645**	5,376,926	**6,940,924**	5,310,299	3,493,976
Interbank Loans Receivable	**7,502,748**	7,722,546	**7,502,748**	7,722,546	2,893,384
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**5,267,750**	10,540,806	**5,267,750**	10,540,806	10,182,690
Financial Assets at Fair Value Through Other Comprehensive Income (Note 8)	**500**	6,255	**500**	6,255	14,419
Investment Securities at Amortized Cost (Note 8)	**11,129,509**	4,617,898	**11,129,509**	4,617,898	8,794,878
Loans and Receivables (Notes 9, 15 and 27)	**198,875,688**	155,276,237	**187,094,513**	149,247,233	116,400,687
Investments in Subsidiaries (Note 10)	-	-	**2,275,573**	1,368,621	946,181
Investment in a Joint Venture (Note 10)	**619,333**	471,287	**619,333**	471,287	-
Property and Equipment (Note 11)	**3,391,846**	3,523,169	**3,017,194**	3,211,375	3,351,442
Investment Properties (Notes 12 and 15)	**699,667**	727,613	**698,970**	726,916	911,987
Deferred Tax Assets (Note 24)	**1,972,465**	1,322,271	**1,896,899**	1,295,956	952,751
Goodwill and Other Intangible Assets (Notes 7 and 13)	**6,946,408**	4,446,622	**6,888,692**	4,384,736	4,350,242
Other Assets (Notes 14 and 15)	**2,474,082**	2,016,910	**2,414,624**	1,990,542	2,406,012
TOTAL ASSETS	**₱291,817,545**	₱232,856,351	**₱281,278,150**	₱227,448,743	₱183,581,756
LIABILITIES AND EQUITY					
LIABILITIES					
Deposit Liabilities (Notes 16 and 27)					
Demand	**₱70,301,898**	₱55,537,930	**₱70,631,591**	₱55,781,294	₱45,473,939
Savings	**58,771,622**	37,705,245	**48,345,145**	36,712,691	24,632,542
Time	**103,112,716**	82,866,306	**103,112,716**	78,537,054	65,029,612
Long-term negotiable certificates of deposits	**8,035,283**	8,034,515	**8,035,283**	8,034,515	8,033,623
	240,221,519	184,143,996	**230,124,735**	179,065,554	143,169,716
Bills and Acceptances Payable (Note 17)	**2,194,595**	3,073,523	**2,194,595**	3,073,523	5,317,652
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,866,929**	1,317,163	**1,750,222**	1,226,778	1,269,453
Cashier's Checks and Demand Draft Payable	**1,059,178**	1,217,741	**1,059,178**	1,217,741	1,256,982
Subordinated Debt (Note 19)	**4,969,460**	6,466,516	**4,969,460**	6,466,516	6,463,731
Income Tax Payable	**369,508**	486,390	**260,171**	396,052	127,952
Other Liabilities (Note 20)	**6,686,985**	4,748,275	**6,470,418**	4,599,832	4,528,463
TOTAL LIABILITIES	**257,368,174**	201,453,604	**246,828,779**	196,045,996	162,133,949
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY					
Common Stock (Note 22)	**14,999,836**	14,999,836	**14,999,836**	14,999,836	11,284,096
Additional Paid in Capital (Note 22)	**5,209,061**	5,209,061	**5,209,061**	5,209,061	978,721
Surplus Reserves (Note 28)	**47,467**	45,607	**47,467**	45,607	43,906
Surplus (Note 28)	**14,167,106**	11,161,210	**14,167,106**	11,161,210	9,158,976
Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	**(4,060)**	(2,442)	**(4,060)**	(2,442)	5,722
Remeasurement Losses on Retirement Plans (Note 25)	**(69,082)**	(46,019)	**(69,082)**	(46,019)	(31,394)
Cumulative Translation Adjustment	**99,043**	35,494	**99,043**	35,494	7,780
TOTAL EQUITY	**34,449,371**	31,402,747	**34,449,371**	31,402,747	21,447,807
TOTAL LIABILITIES AND EQUITY	**₱291,817,545**	₱232,856,351	**₱281,278,150**	₱227,448,743	₱183,581,756

See accompanying Notes to Financial Statements.

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)					
INTEREST INCOME						
Loans and receivables (Notes 9 and 27)	**₱17,377,357**	₱13,920,185	₱11,050,262	**₱16,082,377**	₱13,083,188	₱10,550,724
Trading and investment securities (Note 8)	**799,629**	583,453	561,606	**799,629**	583,453	561,606
Due from other banks and interbank loans receivable	**40,115**	102,881	55,184	**39,987**	102,663	54,362
	18,217,101	14,606,519	11,667,052	**16,921,993**	13,769,304	11,166,692
INTEREST EXPENSE						
Deposit liabilities (Note 16)	**2,458,922**	1,843,639	1,327,478	**2,278,609**	1,741,568	1,259,377
Subordinated debt, bills payable and other borrowings (Notes 17 and 19)	**358,941**	423,204	313,689	**358,941**	423,204	313,689
	2,817,863	2,266,843	1,641,167	**2,637,550**	2,164,772	1,573,066
NET INTEREST INCOME	**15,399,238**	12,339,676	10,025,885	**14,284,443**	11,604,532	9,593,626
Service charges, fees and commissions (Note 23)	**4,101,341**	3,286,182	3,297,839	**3,189,114**	2,800,362	2,669,714
Gain on capital transaction (Note 10)	**1,005,000**	–	–	**1,005,000**	–	–
Trading and securities gain (loss) (Note 8)	**734,499**	(97,090)	499,525	**734,499**	(97,090)	499,525
Foreign exchange gain	**176,957**	192,053	193,517	**176,957**	192,053	193,516
Gain on sale of assets (Notes 11,12 and 14)	**56,124**	80,043	301,763	**55,059**	75,009	300,890
Trust income (Note 28)	**18,602**	17,007	20,372	**18,602**	17,007	20,372
Gain on sale of investment securities at amortized cost (Note 8)	**–**	287,361	305,997	**–**	287,361	305,997
Gain (loss) on asset foreclosure and dacion transactions	**(29,454)**	(67,119)	19,417	**(29,454)**	(67,119)	19,047
Miscellaneous (Note 23)	**469,718**	306,439	222,031	**457,335**	294,248	214,860
TOTAL OPERATING INCOME	**21,932,025**	16,344,552	14,886,346	**19,891,555**	15,106,363	13,817,547
OPERATING EXPENSES						
Provision for impairment and credit losses (Notes 9, 12, 14 and 15)	**5,692,223**	3,899,002	3,311,349	**5,659,819**	3,868,583	3,255,426
Compensation and fringe benefits (Notes 25 and 27)	**4,009,859**	3,294,039	3,007,855	**3,706,512**	3,111,453	2,845,964
Taxes and licenses	**1,520,722**	1,130,700	974,893	**1,341,091**	1,018,639	885,651
Depreciation and amortization (Notes 11, 12, and 14)	**974,771**	776,467	670,291	**889,443**	732,489	647,554
Rent (Note 26)	**873,118**	738,148	629,291	**815,401**	699,681	607,007
Amortization of intangible assets (Note 13)	**175,251**	180,905	191,681	**163,038**	168,701	182,388
Miscellaneous (Note 23)	**4,187,414**	3,633,311	3,463,563	**3,983,020**	3,479,771	3,330,593
TOTAL OPERATING EXPENSES	**17,433,358**	13,652,572	12,248,923	**16,558,324**	13,079,317	11,754,583
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND JOINT VENTURE	**4,498,667**	2,691,980	2,637,423	**3,333,231**	2,027,046	2,062,964
SHARE IN NET INCOME OF SUBSIDIARIES	**–**	–	–	**775,405**	392,575	406,828
SHARE IN NET LOSS OF A JOINT VENTURE	**(356,954)**	(28,713)	–	**(356,954)**	(28,713)	–
INCOME BEFORE INCOME TAX	**4,141,713**	2,663,267	2,637,423	**3,751,682**	2,390,908	2,469,792
PROVISION FOR INCOME TAX (Note 24)	**733,957**	659,332	564,045	**343,926**	386,973	396,414
NET INCOME	**₱3,407,756**	₱2,003,935	₱2,073,378	**₱3,407,756**	₱2,003,935	₱2,073,378
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱2.27**	₱1.44	₱1.78			
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱2.27**	₱1.44	₱1.78			

See accompanying Notes to Financial Statements.

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	**₱3,407,756**	₱2,003,935	₱2,073,378	**₱3,407,756**	₱2,003,935	₱2,073,378
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that will not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement loss of retirement liability (Note 25)	**(23,063)**	(14,625)	(17,517)	**(24,378)**	(14,490)	(17,361)
Change in net unrealized gains (losses) on financial assets at fair value through other comprehensive income	**(1,618)**	(8,164)	3,797	**(1,618)**	(8,164)	3,797
Share in changes in remeasurement gain (loss) of retirement liabilities of subsidiaries (Note 25)	**–**	–	–	**1,315**	(135)	(156)
Items that may be reclassified to profit or loss in subsequent periods:						
Cumulative translation adjustment	**63,549**	27,714	2,552	**63,549**	27,714	2,552
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**38,868**	4,925	(11,168)	**38,868**	4,925	(11,168)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱3,446,624**	₱2,008,860	₱2,062,210	**₱3,446,624**	₱2,008,860	₱2,062,210

See accompanying Notes to Financial Statements.

Statements of Changes in Equity

Consolidated
Year Ended December 31, 2016

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2016	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747
Net income	–	–	–	3,407,756	–	–	–	3,407,756
Other comprehensive income (loss)	–	–	–	–	(1,618)	(23,063)	63,549	38,868
Total comprehensive income	–	–	–	3,407,756	(1,618)	(23,063)	63,549	3,446,624
Transfer to surplus reserves (Note 28)	–	–	1,860	(1,860)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(400,000)	–	–	–	(400,000)
Balances at December 31, 2016	**₱14,999,836**	**₱5,209,061**	**₱47,467**	**₱14,167,106**	**(₱4,060)**	**(₱69,082)**	**₱99,043**	**₱34,449,371**

Consolidated
Year Ended December 31, 2015

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2015	₱11,284,096	₱978,721	₱43,906	₱9,158,976	₱5,722	(₱31,394)	₱7,780	₱21,447,807
Net income	–	–	–	2,003,935	–	–	–	2,003,935
Other comprehensive income (loss)	–	–	–	–	(8,164)	(14,625)	27,714	4,925
Total comprehensive income	–	–	–	2,003,935	(8,164)	(14,625)	27,714	2,008,860
Transfer to surplus reserves (Note 28)	–	–	1,701	(1,701)	–	–	–	–
Issuance from stock rights offering (Note 22)	3,715,740	4,230,340	–	–	–	–	–	7,946,080
Balances at December 31, 2015	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747

Consolidated
Year Ended December 31, 2014

	Equity Attributable to Equity Holders of the Parent Company									
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total	Non-Controlling interest	Total Equity
Balances at January 1, 2014	₱11,284,096	₱978,721	₱41,869	₱7,087,635	₱1,925	(₱13,877)	₱5,228	₱19,385,597	₱6,622	₱19,392,219
Net income	–	–	–	2,073,378	–	–	–	2,073,378	–	2,073,378
Other comprehensive income (loss)	–	–	–	–	3,797	(17,517)	2,552	(11,168)	–	(11,168)
Total comprehensive income	–	–	–	2,073,378	3,797	(17,517)	2,552	2,062,210	–	2,062,210
Transfer to surplus reserves (Note 28)	–	–	2,037	(2,037)	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(6,622)	(6,622)
Balances at December 31, 2014	₱11,284,096	₱978,721	₱43,906	₱9,158,976	₱5,722	(₱31,394)	₱7,780	₱21,447,807	₱-	₱21,447,807

Parent Company
Year Ended December 31, 2016

	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2016, as restated	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747
Net income	–	–	–	3,407,756	–	–	–	3,407,756
Other comprehensive income (loss)	–	–	–	–	(1,618)	(23,063)	63,549	38,868
Total comprehensive income	–	–	–	3,407,756	(1,618)	(23,063)	63,549	3,446,624
Transfer to surplus reserves (Note 28)	–	–	1,860	(1,860)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(400,000)	–	–	–	(400,000)
Balances at December 31, 2016	**₱14,999,836**	**₱5,209,061**	**₱47,467**	**₱14,167,106**	**(₱4,060)**	**(₱69,082)**	**₱99,043**	**₱34,449,371**

Parent Company – Year Ended December 31, 2015 (As restated)	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2015, as previously reported	₱11,284,096	₱978,721	₱43,906	₱8,733,639	₱5,722	(₱31,238)	₱7,780	₱21,022,626
Effects of the adoption of equity method in accounting for investments in subsidiaries (Note 2)	–	–	–	425,337	–	(156)	–	425,181
Balances at January 1, 2015, as restated	11,284,096	978,721	43,906	9,158,976	5,722	(31,394)	7,780	₱21,447,807
Net income	–	–	–	2,003,935	–	–	–	2,003,935
Other comprehensive income (loss)	–	–	–	–	(8,164)	(14,625)	27,714	4,925
Total comprehensive income, as restated	–	–	–	2,003,935	(8,164)	(14,625)	27,714	2,008,860
Transfer to surplus reserves (Note 28)	–	–	1,701	(1,701)	–	–	–	–
Issuance from stock rights offering	3,715,740	4,230,340	–	–	–	–	–	7,946,080
Balances at December 31, 2015, as restated	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747

Parent Company – Year Ended December 31, 2014 (As restated)	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2014, as previously reported	₱11,284,096	₱978,721	₱41,869	₱7,055,732	₱1,925	(₱13,877)	₱5,228	₱19,353,694
Effects of the adoption of equity method in accounting for investments in subsidiaries (Note 2)	–	–	–	31,903	–	–	–	31,903
Balances at January 1, 2014, as restated	11,284,096	978,721	41,869	7,087,635	1,925	(13,877)	5,228	19,385,597
Net income	–	–	–	2,073,378	–	–	–	2,073,378
Other comprehensive income (loss)	–	–	–	–	3,797	(17,517)	2,552	(11,168)
Total comprehensive income, as restated	–	–	–	2,073,378	3,797	(17,517)	2,552	2,062,210
Transfer to surplus reserves (Note 28)	–	–	2,037	(2,037)	–	–	–	–
Balances at December 31, 2014, as restated	₱11,284,096	₱978,721	₱43,906	₱9,158,976	₱5,722	(₱31,394)	₱7,780	₱21,447,807

See accompanying Notes to Financial Statements.

	Consolidated 2016	Consolidated 2015	Consolidated 2014	Parent Company 2016	Parent Company 2015 (As restated - Note 2)	Parent Company 2014 (As restated - Note 2)
	Years Ended December 31 (Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱4,141,713**	₱2,663,267	₱2,637,423	**₱3,751,682**	₱2,390,908	₱2,469,792
Adjustments for:						
Provision for impairment and credit losses (Note 15)	**5,692,223**	3,899,002	3,311,349	**5,659,819**	3,868,583	3,255,426
Depreciation and amortization (Notes 11, 12 and 14)	**974,771**	776,467	670,291	**889,443**	732,489	647,554
Share in net loss of a joint venture (Note 10)	**356,954**	28,713	–	**356,954**	28,713	–
Amortization of intangible assets (Note 13)	**175,251**	180,905	191,681	**163,038**	168,701	182,388
Loss (gain) on asset foreclosure and dacion transactions (Note 32)	**29,454**	67,119	(19,417)	**29,454**	67,119	(19,047)
Share in net income of subsidiaries (Note 10)	–	–	–	**(775,405)**	(392,575)	(406,828)
Gain on sale of investment securities at amortized cost (Note 8)	**–**	(287,361)	(305,997)	–	(287,361)	(305,997)
Gain on sale of assets (Notes 11, 12 and 14)	**(56,124)**	(80,043)	(301,763)	**(55,059)**	(75,009)	(300,890)
Unrealized market valuation loss (gain) on financial assets at FVTPL	**(72,944)**	60,104	(52,655)	**(72,944)**	60,104	–
Gain on capital transaction (Note 10)	**(1,005,000)**	–	–	**(1,005,000)**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	**5,346,000**	(418,220)	(8,181,332)	**5,346,000**	(418,220)	(8,233,987)
Loans and receivables	**(45,216,868)**	(38,612,689)	(30,787,731)	**(39,432,293)**	(37,575,990)	(28,198,525)
Other assets	**4,509**	673,752	(1,525,820)	**9,788**	683,026	(1,525,456)
Increase (decrease) in the amounts of:						
Deposit liabilities	**48,753,345**	36,456,517	36,511,384	**43,735,003**	35,895,838	34,438,028
Accrued taxes, interest and other expenses	**605,527**	(24,113)	303,100	**579,205**	(42,675)	225,375
Cashier's checks and demand draft payable	**(158,563)**	(39,241)	390,525	**(158,563)**	(39,241)	390,525
Other liabilities	**568,794**	194,802	943,342	**524,047**	81,168	1,032,511
Net cash generated from operations	**20,139,042**	5,538,981	3,784,380	**19,545,169**	5,145,578	3,650,869
Income taxes paid	**(1,485,203)**	(696,096)	(431,198)	**(1,070,302)**	(455,868)	(277,259)
Net cash provided by operating activities	**18,653,839**	4,842,885	3,353,182	**18,474,867**	4,689,710	3,373,610
CASH FLOWS FROM INVESTING ACTIVITIES						
Consideration received for the exclusive bancassurance access and investment transaction (Note 10)	**1,400,000**	–	–	**1,400,000**	–	–
Proceeds from sale of:						
Investment properties and other repossessed assets (Notes 12 and 14)	**981,868**	628,475	474,788	**981,868**	628,475	468,559
Property and equipment (Note 11)	**6,112**	7,425	29,742	**3,115**	2,177	27,966
Investment securities at amortized cost (Note 8)	**–**	4,575,653	3,927,754	**–**	4,575,653	3,927,754
Proceeds from maturity of investment securities at amortized cost	**3,185,701**	170,921	46,553	**3,185,701**	170,921	46,553
Acquisitions of:						
Investment securities at amortized cost	**(9,697,312)**	(282,233)	(3,383,280)	**(9,697,312)**	(282,233)	(3,383,280)
Property and equipment (Note 11)	**(532,373)**	(631,129)	(805,803)	**(382,608)**	(436,808)	(729,746)
Branch licenses (Note 13)	–	(204)	(505,196)	–	(204)	(505,196)
Capitalized software (Note 13)	**(250,348)**	(202,550)	(455,523)	**(242,305)**	(202,991)	(401,008)
Net cash transferred from a business combination (Note 7)	**(379,782)**	–	–	**(401,160)**	–	–

(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)					
Incorporation of a subsidiary (Note 10)	**₱–**	₱–	₱–	**(₱100,000)**	(₱30,000)	₱–
Investment in a joint venture (Note 10)	**–**	(500,000)	–	**–**	(500,000)	–
Merged cash from GBI (Note 7)	**–**	–	–	**–**	–	7,269
Net cash provided by (used in) investing activities	**(5,286,134)**	3,766,358	(670,965)	**(5,252,701)**	3,924,990	(541,129)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**193,684,233**	90,999,637	209,111,418	**193,684,233**	90,999,637	207,333,218
Payments of bills and acceptances payable	**(194,563,161)**	(93,243,766)	(207,082,701)	**(194,563,161)**	(93,243,766)	(205,432,706)
Payment of subordinated debt (Note 19)	**(1,555,763)**	–	(1,362,500)	**(1,555,763)**	–	(1,362,500)
Dividend paid (Note 22)	**(400,000)**	–	–	**(400,000)**	–	–
Issuance of common stock, net of direct cost related to issuance (Note 22)	**–**	7,946,080	–	**–**	7,946,080	–
Issuance of unsecured subordinated debt, net of issuance cost (Note 19)	**–**	–	4,963,731	**–**	–	4,963,731
Acquisition of non-controlling interest (Note 10)	**–**	–	(6,622)	**–**	–	–
Net cash provided by (used in) financing activities	**(2,834,691)**	5,701,951	5,623,326	**(2,834,691)**	5,701,951	5,501,743
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10,533,014**	14,311,194	8,305,543	**10,387,475**	14,316,651	8,334,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**5,899,131**	5,993,499	3,884,538	**5,829,104**	5,912,309	3,811,185
Due from Bangko Sentral ng Pilipinas	**30,908,680**	23,128,678	18,537,655	**30,725,169**	22,970,798	18,404,125
Due from other banks	**5,376,926**	3,580,528	1,751,824	**5,310,299**	3,493,976	1,604,404
Interbank loans receivable	**7,722,546**	2,893,384	3,116,529	**7,722,546**	2,893,384	3,116,529
	49,907,283	35,596,089	27,290,546	**49,587,118**	35,270,467	26,936,243
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**6,623,761**	5,899,131	5,993,499	**6,511,420**	5,829,104	5,912,309
Due from Bangko Sentral ng Pilipinas	**39,343,143**	30,908,680	23,128,678	**39,019,501**	30,725,169	22,970,798
Due from other banks	**6,970,645**	5,376,926	3,580,528	**6,940,924**	5,310,299	3,493,976
Interbank loans receivable	**7,502,748**	7,722,546	2,893,384	**7,502,748**	7,722,546	2,893,384
	₱60,440,297	₱49,907,283	₱35,596,089	**₱59,974,593**	₱49,587,118	₱35,270,467
NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	**₱17,763,608**	₱14,322,709	₱11,253,183	**₱16,538,668**	₱13,506,468	₱10,726,087
Interest paid	**2,822,450**	2,217,095	1,516,473	**2,647,577**	2,115,293	1,447,607
Dividend received	**6,390**	11,511	25,527	**6,390**	11,511	25,527

See accompanying Notes to Financial Statements.

1. Corporate Information

East West Banking Corporation (EW or the Bank or the Parent Company) is a domestic universal bank which was registered with the SEC on March 22, 1994. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank and operate an expanded foreign currency deposit unit in 1994. Subsequently in 2012, the Parent Company has been authorized by the BSP to operate as a universal bank. The Parent Company's common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012 (see Note 22).

As of December 31, 2016, the Parent Company is effectively 77.18% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc. The Parent Company's head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

Through its network of 445 and 433 branches as of December 31, 2016 and 2015, respectively, the Bank and its subsidiaries (the Group) provides a wide range of financial services to consumer and corporate clients which includes deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management, custodial services, insurance services and leasing and finance.

2. Summary of Significant Accounting 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), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except when otherwise indicated.

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 Philippine peso 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 Philippine peso, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Transactions and Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

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 all subsidiaries and the joint venture is the Philippine peso.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Group presents its statement of financial position broadly 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 21.

Basis of Consolidation
The Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly-owned subsidiaries of the Parent Company as of December 31, 2016 and 2015:

	Principal Activities	Effective Percentage of Ownership 2016	2015
East West Rural Bank, Inc. (EWRB)	Consumer banking	**100.00**	100.00
East West Insurance Brokerage, Inc. (EWIB)	Non-life insurance brokerage	**100.00**	100.00
East West Leasing and Finance Corporation (EWLFC)	Finance and leasing	**100.00**	–
Price Solutions Philippines, Inc. (PSPI)	Sales and marketing	**100.00**	–
Assurance Solutions Insurance Agency (ASIA)	General insurance and marketing	**100.00**	–

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company has power over the entity when it has existing rights that give it the current ability to direct relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards, which became effective beginning January 1, 2016. Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group.

- PFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests*
- Philippine Accounting Standards (PAS) 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- PAS 1, *Disclosure Initiative*
- PFRS 10, PFRS 12, and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- *Annual Improvements to PFRSs* (2012 - 2014 Cycle)
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Employee Benefits*, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Interim Financial Reporting*, *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 a joint venture from the cost method to the equity method. The change in the accounting policy was applied retrospectively, with impact as follows:

Statements of financial position	As at December 31, 2015	As at January 1, 2015
	(Amounts in thousands)	
Increase in:		
Investment in subsidiaries	₱817,621	₱425,181
Surplus	817,912	425,337
Remeasurement losses on retirement plans	291	156

Statements of comprehensive income	Years Ended 2015	2014
	(Amounts in thousands)	
Increase(decrease) in:		
Share in net income of subsidiaries	₱392,575	₱406,828
Share in remeasurement losses of retirement liability of subsidiaries	135	156

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, and interbank loans and receivable (IBLR) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value.

Foreign Currency Transactions and Translation
Transactions and balances
For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost are translated using the exchange rates as at 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 at the reporting date, the assets and liabilities of the FCDU of the Parent Company are translated into the Parent Company's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation are taken to the statement of comprehensive income under 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 certain financial instruments such as financial assets at FVTPL, financial assets at FVTOCI and derivative financial instruments, at fair value at each statement of financial position date. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

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 to 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence 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 risks of the asset or liability and the level of the fair value hierarchy (see Note 5).

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

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, the date that an asset is delivered to or by the Group. 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 it is delivered by the Group. Securities transactions and related commission income and expense are recorded also on a settlement date basis. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification, Reclassification and Measurement of Financial Assets and Financial Liabilities
For purposes of classifying financial assets, an instrument is an investment in an 'equity instrument' if it is non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are investments in 'debt instruments'.

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. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as Interest income in the statement of income. The Group classified Cash and other cash items, Due from BSP, Due from other banks, IBLR, Investment securities at amortized cost and Loans and receivables 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.

Financial assets at FVTOCI
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment 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.

Financial assets at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they 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 other comprehensive income and accumulated in Net unrealized gain (loss) on financial assets at FVTOCI in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in Net unrealized gain (loss) on financial assets at FVTOCI is not reclassified to profit or loss, but is reclassified directly to Surplus.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 8).

Dividends earned on holding these 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.

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.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities, private bonds, equity securities held for trading purposes and derivative assets.

Financial assets at FVTPL are carried at fair value, and fair value gains and losses on these instruments are recognized as Trading and securities gain in the statement of income. Interest earned on these investments is reported in the statement of income under Interest income while dividend income is reported in the statement of income under Miscellaneous income when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

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 other comprehensive income. For foreign currency-denominated debt instruments classified at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.

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 the following financial assets:

- 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 meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI 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.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at FVTPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing 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.

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

As of date, the Group's financial liabilities at FVTPL include derivative liabilities.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost under Deposit liabilities, Bills and acceptances payable, Subordinated debt or other appropriate financial liability accounts, where 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.

Financial liabilities are initially measured at cost plus transaction costs. Subsequently, these financial instruments are measured at amortized cost using the effective interest method, except for:

a. financial liabilities at fair value through profit or loss which are measured at fair value; and
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Amortized cost is calculated by taking into account any discount or premium on the issuance and fees that are an integral part of the effective interest rate (EIR).

Impairment of Financial Assets
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets classified and measured at amortized cost such as Loans and receivables, Due from other banks and Investment securities 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 asset's carrying amount and the present value of the 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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 flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to Provision for impairment and credit losses in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If a write-off is later recovered, a recovery income in recognized and is recorded as Miscellaneous income in the statement of income.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses of 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.

Restructured loans
Loan restructuring 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 past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in Provision for impairment and credit losses in the statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where 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 or transferred;
- 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 risk 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, cancelled or has expired. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

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.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross in the statement of financial position (see Note 31).

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties including buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations 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 additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives (EUL) of the property and equipment.

	Years
Buildings	30-40
Furniture, fixtures and equipment	3-5

The cost of the leasehold improvements is amortized over the shorter of the covering lease term or the EUL of the improvements of 10 years.

The estimated useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired 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, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income under Gain on sale of assets in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units.

Foreclosed properties of land or building are classified under Investment properties from foreclosure date. Other foreclosed properties which do not qualify as land or building are classified as other repossessed assets included in Other assets in the statement of financial position.

Transfers are made to investment properties 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 properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

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 in the statement of income.

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled 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 interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in Subsidiaries

Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) remeasurement of retirement plans. Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. 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.

Investment in a Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's and the Parent Company's investment in joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. The statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its 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 joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of income and represents profit or loss after tax.

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share in net income (loss) of joint venture' in the statement of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the joint venture 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.

Intangible Assets

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 the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. 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 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.

Intangible assets include goodwill, branch licenses, customer relationship, core deposits and capitalized software (see Note 13).

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 net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Branch licenses

Branch licenses are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life is reviewed annually to determine whether indefinite useful 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.

Customer relationship and core deposits

Customer relationship and core deposits are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the credit cards business is amortized on a straight-line basis over its useful life of 40 years while the customer relationship related to the auto loans business and core deposits are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (see Note 13).

Capitalized software

Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less accumulated amortization and any accumulated impairment losses. The capitalized software is amortized on a straight-line basis over its estimated useful life of 5 years.

Card Acquisition Costs

Card acquisition costs represent capitalized commissions paid to third-party brokers for successfully originated credit card accounts, which are amortized over two years, the average relationship life with customers.

Impairment of Nonfinancial Assets

An assessment is made at each statement of financial position date whether there is any indication of impairment of property and equipment, investment properties, other repossessed assets and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, 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:

Property and equipment, investment properties and other repossessed assets
The carrying values of the property and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where 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. Where 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.

Other intangible assets
Other intangible assets such as customer relationship, core deposits and capitalized software are assessed for impairment whenever there is an indication that they may be impaired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets at FVTPL, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in the carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

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

Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, fiduciary fees and credit related fees.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

c) *Bancassurance fees*
Non-refundable fees are recognized on a straight-line bases over the term of the distribution agreement. Fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and securities gain
Trading and securities gain represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities held for trading.

Commissions earned on credit cards
Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to Unearned discount and is shown as a deduction from Loans and receivables in the statement of financial position.

The unearned discount is taken to income over the installment terms and is computed using the effective interest method.

Customer loyalty programmes
Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale. Income generated from customer loyalty programmes is recognized as part of Service charges, fees and commissions in the statement of income.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectibility of the sales price is reasonably assured.

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.

Leases
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 that 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. Contingent rents are recognized as an expense in the period in which they are incurred.

Retirement Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. 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.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements are recognized in other comprehensive income account. Remeasurement gains (losses) on retirement plan are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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 risk 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.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes the related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increases their annual leave entitlement. The cost of accumulating annual leave are measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest expense in the statement of income.

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

Income Taxes
Current taxes
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. 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.

Deferred taxes
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 liabilities are recognized for all taxable temporary differences, with certain exceptions. 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 income tax 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 asset to be utilized.

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

Deferred tax assets and 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.

Equity
Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to Additional paid in capital account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to Additional paid in capital account. If additional paid-in capital is not sufficient, the excess is charged against Surplus.

Surplus represents accumulated earnings of the Group less dividends declared.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the Board of Directors (the Board or BOD) of the Parent Company and approved by the BSP. Dividends for the year that are declared and approved after the statement of financial position date, if any, are dealt with as an event after the financial reporting date and disclosed accordingly.

Earnings Per Share (EPS)
Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared and stock rights exercised in the current year, if any. The Group does not have dilutive potential common shares.

Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

Events after the Financial Reporting 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 when material to the financial statements.

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.

Future Changes in Accounting Policies
Standards issued up to the date of issuance of the financial statements but are not yet effective are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the 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 financial statements of the Group.

- 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. They 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 other comprehensive income, rather than profit or loss, 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. They 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 nonmonetary 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 IASB 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.

Effective beginning on or after January 1, 2019

- 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 profit or loss. 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.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates 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 judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these become reasonably determinable.

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

Judgments

a) 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 results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 29).

b) Business model for managing financial assets

Sale of Investment Securities at Amortized Cost

The Parent Company's business model allows for financial assets to be held to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent sale is 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 Parent Company considers the following:

- 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;
- sales in preparation for funding a potential aberrant behavior in the depositors' withdrawal pattern triggered by news of massive withdrawals or massive withdrawal already experienced by other systemically important banks in the industry;
- sales attributable to an anticipated or in reaction to major events in the local and/or international arena that may adversely affect the collectability of the debt instrument and seen to prospectively affect adversely the behavior of deposits or creditors;
- sales attributable to a change in the Parent Company's strategy based on the final version of PFRS 9; and
- sales that the Asset-Liability Management Committee (ALCO) deems appropriate to be consistent with managing the Parent Company's balance sheet based upon but are not limited to the set risk limits and target ratios that have been approved by the BOD.

In 2015, the Parent Company sold various securities under its hold-to-collect (HTC) portfolios in anticipation of the effects of the upcoming regulatory requirements on liquidity coverage ratio. In 2014, the Parent Company sold various securities from different portfolios in its HTC business model. The sale was primarily driven by the need to improve the Parent Company's capital position in relation to the change in the regulatory capital requirements caused by the Basel III implementation.

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

c) *Determination of joint control over EW Ageas Life*
Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is presumed to exist when the investors contractually agree on the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Based on the provisions of the joint venture arrangement between the Parent Company and Ageas (see Note 10), both parties have to agree in order for any resolution to be passed relating to the joint venture entity's relevant activities. This joint arrangement is classified as a joint venture since the parties have rights to the net assets of the joint venture entity.

d) *Business combination*
In determining whether a transaction or an event is a business combination, the Parent Company assessed whether the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Further, a business consists of inputs and processes applied to those inputs that have the ability to create outputs. Based on the provisions of the asset transfer agreement between the Parent Company and Standard Chartered Bank (see Note 7), the Parent Company has identified the acquisition as a business combination. In making this judgment, the Parent Company has assessed the retail banking portfolio acquired as capable of providing a return to the Parent Company in the form of revenues from lending and portfolio management activities.

Estimates

a) *Impairment of loans and receivables*
The Group reviews its loans and receivables at each statement of financial position date to assess whether impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Factors considered in doing the impairment assessment are discussed further in Note 4.
The carrying values of loans and receivables and the related allowance for credit and impairment losses of the Group and of the Parent Company are disclosed in Note 9.

b) *Fair values of financial instruments*
The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, the models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Fair value measurements of financial instruments are disclosed in Note 5.

c) *Impairment of nonfinancial assets*

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Group's and of the Parent Company's investment properties and intangible assets (excluding goodwill) follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Branch licenses (Note 13)	**₱2,167,600**	₱2,167,600	**₱2,167,600**	₱2,167,600
Other repossessed assets (Note 14)	**932,735**	555,836	**932,735**	555,836
Capitalized software (Note 13)	**907,775**	824,324	**873,537**	785,916
Investment properties (Note 12)	**699,667**	727,613	**698,970**	726,916
Customer relationship (Note 13)	**120,854**	125,165	**120,854**	125,165
Core deposits (Note 13)	**8,762**	12,805	**8,762**	12,805

d) *Impairment of 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 Group has used the cost of equity as the discount rate for the value in use (VIU) computation. The Group determined the cost of equity using capital asset pricing model.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the BOD covering a five-year period. Future cash flows from the CGU are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived from the average increase in annual income during the last 5 years. The discount rate applied reflects the current market assessment of the risk specific to each CGU. Key assumptions in VIU calculation of CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to extrapolate cash flows beyond the budget period.

The carrying values of goodwill of the Group and of the Parent Company are disclosed in Note 13.

e) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The recognized and unrecognized net deferred tax assets of the Group and of the Parent Company are disclosed in Note 24.

f) Retirement obligation

The cost of defined benefit retirement plans and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the 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 reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on historical annual merit, market and promotional increase and future inflation rates.

The present value of the defined benefit obligation of the Group and of the Parent Company and details about the assumptions used are disclosed in Note 25.

g) Valuation of exclusive bancassurance access or distribution rights

The Parent Company entered into an exclusive distribution agreement with EW Ageas Life for a period of twenty (20) years. Under the distribution agreement, EW Ageas Life will have exclusive access to the branch network of the Parent Company for the distribution of its insurance products (the exclusive bancassurance access).

The fair value of the exclusive bancassurance access was determined based on a valuation done by an independent third party valuer, which used as inputs recent similar transactions and the number of branches and customers of the Parent Company. The fair value of the exclusive bancassurance access was recognized as deferred revenue to be amortized over the distribution period (see Notes 10 and 20).

4. Financial Risk Management Objectives and Policies

Risk Management

To ensure that corporate goals and objectives, and business and risk strategies are achieved, the Parent Company utilizes a risk management process that is applied throughout the organization in executing all business activities. Employees' functions and roles fall into one of the three categories where risk must be managed in the business units, operating units and governance units.

The Parent Company's activities are principally related to the use of financial instruments and are exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks. Forming part of a coherent risk management system are the risk concepts, control tools, analytical models, statistical methodologies, historical researches and market analysis, which are being employed by the Parent Company. These tools support the key risk process that involves identifying, measuring, controlling and monitoring risks.

Risk Management Structure

a. Board of Directors (the Board or BOD)
   The Parent Company's risk culture is practiced and observed across the Group putting the prime responsibility on the BOD. It establishes the risk culture and the risk management organization and incorporates the risk process as an essential part of the strategic plan of the Group. The BOD approves the Parent Company's articulation of risk appetite which is used internally to help management understand the tolerance for risk in each of the major risk categories, its measurement and key controls available that influence the Parent Company's level of risk taking. All risk management policies and policy amendments, risk-taking limits such as but not limited to credit and trade transactions, market risk limits, counterparty limits, trader's limits and activities are based on the Parent Company's established approving authorities which are approved by the Parent Company's BOD. At a high level, the BOD also approves the Parent Company's framework for managing risk.

b. Executive Committee
   This is a board level committee, which reviews the bank-wide credit strategy, profile and performance. It approves the credit risk-taking activities based on the Parent Company's established approving authorities and likewise reviews and endorses credit-granting activities, including the Internal Credit Risk Rating System. All credit proposals beyond the credit approving limit of the Loan and Investments Committee passes through this committee for final approval.

c. Loan and Investments Committee
   This committee is headed by the Chairman of the Parent Company whose primary responsibility is to oversee the Parent Company's credit risk-taking activities and overall adherence to the credit risk management framework, review business/credit risk strategies, quality and profitability of the Parent Company's credit portfolio and recommend changes to the credit evaluation process, credit risk acceptance criteria and the minimum and target return per credit or investment transaction. All credit risk-taking activities based on the Parent Company's established approving authorities are evaluated and approved by this committee. It establishes infrastructure by ensuring business units have the right systems and adequate and competent manpower support to effectively manage its credit risk.

d. Asset-Liability Management Committee (ALCO)
   ALCO, a management level committee, meets on a weekly basis and is responsible for the overall management of the Parent Company's market, liquidity, and financial position related risks. It monitors the Parent Company's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels. The ALCO's primary responsibilities include, among others, (a) ensuring that the Parent Company and each business unit holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (b) managing financial position and ensuring that business strategies are consistent with its liquidity, capital and funding strategies, (c) establishing asset and/or liability pricing policies that are consistent with the financial position objectives, (d) recommending market and liquidity risk limits to the Risk Management Committee and BOD and (e) approving the assumptions used in contingency and funding plans. It also reviews cash flow forecasts, stress testing scenarios and results, and implements liquidity limits and guidelines.

e. Risk Management Committee (RMC)
RMC is a board level committee that convenes monthly and is primarily responsible to assist the Board in managing the Parent Company's risk taking activities. This is performed by the committee by institutionalizing risk policies and overseeing the Parent Company's risk management system. It develops and recommends risk appetite and tolerances for the Parent Company's major risk exposures to the Board. Risk management principles, strategies, framework, policies, processes, and initiatives and any modifications and amendments thereto are reviewed and approved by RMC. It oversees and reports to the Board the effectiveness of the risk management system, overall risk profile, and compliance with the risk appetite and tolerances that the Board approved.

f. Risk Management Subcommittee (RMSC)
RMSC is a management level committee that convenes, at least four times in a year, and is responsible to assist RMC in fulfilling its responsibilities in managing the Parent Company's risk taking activities. This is performed by the committee by implementing the risk management principles, strategies, framework, policies, processes, and initiatives across the Parent Company. It leads the effective conduct of risk and capital management. It oversees and directs the management of the Parent Company's overall risk profile. The committee likewise oversees risk incidents, control gaps, and control deficiencies and management actions in implementing the corresponding corrective actions.

g. Audit Committee (Audit Com)
The Audit Com assists the BOD in fulfilling its responsibilities for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide reasonable assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. It is tasked to discuss with management the Parent Company's major risk exposures and ensures accountability on the part of management to monitor and control such exposures including the Parent Company's risk assessment and risk management policies. The AuditCom oversees the internal audit function and is responsible for monitoring and reviewing its effectiveness while ensuring its independence.

h. Corporate Governance and Compliance Committee (CGCC)
The CGCC leads the Parent Company in defining corporate governance policies and attaining best practices while overseeing the implementation of the Parent Company's compliance program, money laundering prevention program and ensuring that regulatory compliance issues are resolved expeditiously. In addition to its governance role, the CGCC also assumes the nomination function whereby it reviews and evaluates the qualifications of all persons nominated to the Board, all direct reports of the President and CEO, regardless of rank, heads of Governance Units and other positions of the Bank requiring appointment by the Board of Directors. The committee oversees the annual performance evaluation of the Board, its committees, and individual directors and conducts an annual self-evaluation of its performance as prescribed under and in accordance with the Corporate Governance Manual and the 2009 SEC Code of Corporate Governance.

i. Related Party Transactions (RPT) Committee
The RPT Committee assists the Board in ensuring that the transactions with related parties of the Parent Company are handled in a sound and prudent manner, with integrity and in compliance with the applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. It also ensures that related party transactions are conducted on an arm's length basis and that no stakeholder is unduly disadvantaged by such transactions.

j. Risk Management Division (RMD)
RMD performs an independent risk governance function within the Parent Company. RMD is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Parent Company's overall portfolio (on- or off-balance sheet). RMD develops and employs risk assessment tools to facilitate risk identification, analysis and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide market, credit, operational, and all other risks of the Parent Company.

It also develops and endorses risk tolerance limits for BOD approval, as endorsed by the RMC, and monitors compliance with approved risk tolerance limits. Finally, it regularly apprises the BOD, through the RMC, the results of its risk monitoring.

k. Internal Audit Division (IAD)
IAD provides an independent assessment of the adequacy of the Parent Company's internal controls, risk management, governance framework and execution/operational practices. Internal audit activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) and the Code of Ethics. IAD has an adopted a risk assessment methodology, which provides a sound basis in the selection of areas of coverage and frequency of audit for the preparation of the annual audit plan. IAD employs a risk-based audit approach that examines both the adequacy of the policies and the Parent Company's compliance with the procedures while assuring audit coverage of the areas identified as representing the greatest current risk. It discusses the results of assessments with management, and reports its findings and recommendations to the Audit Com. IAD's activities are suitably designed to provide the BOD with reasonable assurance that significant financial and operating information is materially complete, reliable and accurate; internal resources are adequately protected; and employee performance is in compliance with the Parent Company's policies, standards, procedures and applicable laws and regulations

l. Compliance Division
Compliance Division is vested with the responsibility of overseeing the design of the Parent Company's Compliance Program and coordinating its effective implementation towards the sound management of Business and Compliance Risks. Its mandate is to ensure that the Parent Company is compliant with relevant and applicable laws, rules, regulations, codes of conduct and standards of good practice while avoiding an overly risk-averse environment that inhibits business growth. It serves as the Parent Company's central point of contact with banking regulators.

Credit Risk

Credit risk refers to the potential loss of earnings or capital arising from an obligor/s, customer/s or counterparty's failure to perform and/or to meet the terms of any contract with the Group. Credit risks may last for the entire tenor and set at the full amount of a transaction and in some cases, may exceed the original principal exposures. The risk may arise from lending, trade financing, trading, investments and other activities undertaken by the Group. To identify and assess this risk, the Group has: 1) approval process per the borrower or business and/or product segment; and 2) structured and standardized credit rating for corporate loans and risk acceptance criteria for consumer loans. For large corporate credit transactions, the Parent Company has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower. The Group's credit risk is managed at the portfolio level, which may be on an overall or by product perspective.

Credit concentration

Excessive concentration of lending plays a significant role in the weakening of asset quality. The Group reduces this risk by diversifying its loan portfolio across various sectors and borrowers. The Group believes that good diversification across economic sectors and geographic areas, among others, will enable it to ride through business cycles without causing undue harm to its asset quality.

The Group's loan portfolio in line with the Group's policy of not having significant concentrations of exposure to specific industries or group of borrowers. Management of concentration of risk is by client/counterparty and by industry sector. For risk concentration monitoring purposes, the financial assets are broadly categorized into loans and receivables, loans and advances to banks, and investment securities. The Group ensures compliance with BSP's limit on exposure to any single person or group of connected persons by closely monitoring large exposures and top 20 borrowers for both single and group accounts.

Aside from ensuring compliance with BSP's limit on exposures to any single person or group of connected persons, it is the Parent Company's policy to keep the expected loss (determined based on the credit risk rating of the account) of large exposure accounts to, at most, one and a half percent (1.50%) of their aggregate outstanding balance. This is to maintain the quality of the Group's large exposures. With this, accounts with better risk grades are given priority in terms of being granted a bigger share in the Group's loan facilities.

Aligned with the Manual of Regulations for Banks definition, the Group considers its loan portfolio concentrated if it has exposures of more than thirty percent (30.00%) to an industry.

Credit concentration profile as of December 31, 2016 and 2015

Maximum credit risk exposures

The following table shows the Group's and the Parent Company's maximum exposure to credit risk after taking into account any collateral held or other credit enhancements (amounts in thousands):

Consolidated

	2016				2015			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables:								
Receivables from customers								
Corporate lending	₱61,431,319	₱26,883,894	₱51,881,952	₱9,549,367	₱63,181,881	₱20,129,487	₱56,135,135	₱7,046,746
Consumer lending	128,738,093	67,405,251	87,063,519	41,674,574	86,185,338	40,989,251	58,788,677	27,396,661
	₱190,169,412	₱94,289,145	₱138,945,471	₱51,223,941	₱149,367,219	₱61,118,738	₱114,923,812	₱34,443,407

Parent Company

	2016				2015			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables:								
Receivables from customers								
Corporate lending	₱61,431,319	₱26,883,894	₱51,881,952	₱9,549,367	₱63,181,881	₱20,129,487	₱56,135,135	₱7,046,746
Consumer lending	116,489,355	67,405,251	74,906,990	41,582,365	78,925,589	40,885,555	51,632,624	27,292,965
	₱177,920,674	₱94,289,145	₱126,788,942	₱51,131,732	₱142,107,470	₱61,015,042	₱107,767,759	₱34,339,711

For off-balance sheet items, the figures presented below summarize the Group's and the Parent Company's maximum exposure to credit risk (amounts in thousands):

	2016			2015		
	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure
Off-balance sheet items						
Direct credit substitutes	₱258,608	₱–	₱258,608	₱1,006,559	₱–	₱1,006,559
Transaction-related contingencies	815,748	–	815,748	705,027	–	705,027
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	646,458	–	646,458	804,147	–	804,147
	₱1,720,814	₱–	₱1,720,814	₱2,515,733	₱–	₱2,515,733

Large exposures and top 20 borrowers

The table below summarizes the large exposures and top 20 borrowers of the Group and the Parent Company:

	2016			
	Top 20 Borrowers		**Large Exposures**	
	Single Borrowers	**Group Borrowers**	**Single Borrowers**	**Group Borrowers**
Aggregate Exposure (in billions)	**₱29.69**	**₱32.55**	**₱21.15**	**₱22.88**
Composite Risk Rating	**3.68**	**3.77**	**3.40**	**3.50**
Total Expected Loss/Aggregate Exposure	**1.29%**	**1.34%**	**1.14%**	**1.15%**

	2015			
	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure (in billions)	₱30.76	₱35.74	₱22.41	₱23.20
Composite Risk Rating	3.45	3.51	3.40	3.33
Total Expected Loss/Aggregate Exposure	0.77%	0.81%	0.71%	0.69%

The credit exposures, after due consideration of the allowed credit enhancements, of the Group are all compliant with the regulatory single borrower's limit and considered to be the maximum credit exposure to any client or counterparty.

Concentration by industry

An industry sector analysis of the financial assets of the Group follows (amounts in thousands):

	2016			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱8,741,583	₱53,816,536	₱16,397,759	₱78,955,878
Real estate, renting and business activity	17,795,748	–	–	17,795,748
Private households with employed persons	116,786,091	–	–	116,786,091
Wholesale and retail trade, repair of motor vehicles	18,600,507	–	–	18,600,507
Manufacturing	6,071,216	–	–	6,071,216
Agriculture, fisheries and forestry	1,985,228	–	–	1,985,228
Electricity, gas, steam and air-conditioning supply	9,617,263	–	–	9,617,263
Construction	2,469,423	–	–	2,469,423
Accommodation and food service activities	1,911,448	–	–	1,911,448
Administrative and support service activities	2,783,386	–	–	2,783,386
Human health and social work activities	2,692,101	–	–	2,692,101
Other service activities	2,820,347	–	–	2,820,347
Others****	9,038,329	–	–	9,038,329
	201,312,670	53,816,536	16,397,759	271,526,965
Allowance for credit losses (Note 15)	(6,572,971)	–	–	(6,572,971)
	₱194,739,699	₱53,816,536	₱16,397,759	₱264,953,994

* Includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

	2015			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱11,228,867	₱44,008,152	₱15,164,959	₱70,401,978
Real estate, renting and business activity	19,449,098	–	–	19,449,098
Private households with employed persons	76,050,821	–	–	76,050,821
Wholesale and retail trade, repair of motor vehicles	16,233,879	–	–	16,233,879
Manufacturing	5,717,379	–	–	5,717,379
Agriculture, fisheries and forestry	3,303,346	–	–	3,303,346
Electricity, gas, steam and air-conditioning supply	8,274,976	–	–	8,274,976
Construction	1,730,345	–	–	1,730,345
Accommodation and food service activities	1,989,161	–	–	1,989,161
Administrative and support service activities	2,741,655	–	–	2,741,655
Human health and social work activities	2,632,622	–	–	2,632,622
Other service activities	5,465,707	–	–	5,465,707
Others****	7,795,991	–	–	7,795,991
	162,613,847	44,008,152	15,164,959	221,786,958
Allowance for credit losses (Note 15)	(4,898,407)	–	–	(4,898,407)
	₱157,715,440	₱44,008,152	₱15,164,959	₱216,888,551

* Includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.

An industry sector analysis of the financial assets of the Parent Company follows (amounts in thousands):

	2016			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱8,710,974	₱53,463,173	₱16,397,759	₱78,571,906
Real estate, renting and business activity	17,784,200	–	–	17,784,200
Private households with employed persons	104,546,088	–	–	104,546,088
Wholesale and retail trade, repair of motor vehicles	18,590,170	–	–	18,590,170
Manufacturing	6,061,867	–	–	6,061,867
Agriculture, fisheries and forestry	1,956,409	–	–	1,956,409
Electricity, gas, steam and air-conditioning supply	9,616,836	–	–	9,616,836
Construction	2,465,277	–	–	2,465,277
Accommodation and food service activities	1,906,869	–	–	1,906,869
Administrative and support service activities	2,783,386	–	–	2,783,386
Human health and social work activities	2,692,101	–	–	2,692,101
Other service activities	2,801,241	–	–	2,801,241
Others****	8,854,929	–	–	8,854,929
	188,770,347	53,463,173	16,397,759	258,631,279
Allowance for credit losses (Note 15)	(6,314,427)			(6,314,427)
	₱182,455,920	₱53,463,173	₱16,397,759	₱252,316,852

* Includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

	2015			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱11,121,876	₱43,758,015	₱15,164,959	₱70,044,850
Real estate, renting and business activity	19,388,985	–	–	19,388,985
Private households with employed persons	68,968,907	–	–	68,968,907
Wholesale and retail trade, repair of motor vehicles	16,207,978	–	–	16,207,978
Manufacturing	5,712,036	–	–	5,712,036
Agriculture, fisheries and forestry	3,070,658	–	–	3,070,658
Electricity, gas, steam and air-conditioning supply	8,274,550	–	–	8,274,550
Construction	1,723,631	–	–	1,723,631
Accommodation and food service activities	1,982,301	–	–	1,982,301
Administrative and support service activities	2,741,655	–	–	2,741,655
Human health and social work activities	2,632,622	–	–	2,632,622
Other service activities	5,446,770	–	–	5,446,770
Others****	8,981,253	–	–	8,981,253
	156,253,222	43,758,015	15,164,959	215,176,196
Allowance for credit losses (Note 15)	(4,623,689)	–	–	(4,623,689)
	₱151,629,533	₱43,758,015	₱15,164,959	₱210,552,507

* Includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

Collateral and other credit enhancements

Collaterals are taken into consideration during the loan application process as they offer an alternative way of collecting from the client should a default occur. The percentage of loan value attached to the collateral offered is part of the Group's lending guidelines. Such percentages take into account safety margins for foreign exchange rate exposure/fluctuations, interest rate exposure, and price volatility.

Collaterals are valued according to existing credit policy standards and, following the latest appraisal report, serve as the basis for the amount of the secured loan facility.

Premium security items are collaterals that have the effect of reducing the estimated credit risk for a facility. The primary consideration for enhancements falling under such category is the ease of converting them to cash.

The Group is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. It is the Group's policy to dispose foreclosed assets in an orderly fashion. The proceeds of the sale of the foreclosed assets, included under Investment Properties, are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

As part of the Group's risk control on security/collateral documentation, standard documents are made for each security type and deviation from the pro-forma documents are subject to legal review prior to implementation.

Credit collaterals profile

The table below provides the collateral profile of the outstanding loan portfolio of Group and the Parent Company:

	Consolidated			
Security	Corporate Loans		Consumer Loans	
	2016	2015	2016	2015
REM*	23.35%	17.48%	9.96%	9.05%
Other Collateral**	19.23%	13.06%	41.53%	37.78%
Unsecured	57.42%	69.46%	48.51%	53.17%

* Real Estate Mortgage
** Consists of government securities, stocks and bonds, hold-out on deposits, assignment of vehicles, assignment of receivables etc.

	Parent Company			
Security	Corporate Loans		Consumer Loans	
	2016	2015	2016	2015
REM*	23.35%	17.48%	10.94%	9.92%
Other Collateral**	19.23%	13.06%	45.95%	41.13%
Unsecured	57.42%	69.46%	43.11%	48.95%

* Real Estate Mortgage
** Consists of government securities, stocks and bonds, hold-out on deposits, assignment of vehicles, assignment of receivables, etc.

As for the computation of credit risk weights, hold-out on deposits with the Bank, Home Guaranty cover, and Philippine sovereign guarantees are the only credit risk mitigants considered as eligible.

Internal Credit Risk Rating System

The Parent Company employs a credit scoring system for all corporate borrowers to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (a) quantitative factors under financial condition and (b) qualitative factors, such as management quality and industry outlook.

Financial condition assessment focuses on profitability, liquidity, capital adequacy, sales growth, production efficiency and leverage. Management quality determination is based on the Parent Company's strategies, management competence and skills and management of banking relationship while industry prospect is evaluated based on its importance to the economy, growth, industry structure and relevant government policies. Based on these factors, each borrower is assigned a Borrower Risk Rating (BRR), an 11-scale scoring system that ranges from 1 to 10, including 5B.

Supplementary to the BRR, consideration is also given to security arrangements in computing for the final rating. Depending on certain requisites, an account secured by real estate mortgages and hold-out on deposits or guarantees may be upgraded to better risk classifications.

The credit rating for each borrower is reviewed annually. A more frequent review is warranted in cases where the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy.

The following is a brief explanation of the Parent Company's risk grades:

Rating	Description	Account/Borrower Characteristics
1	Excellent	• low probability of going into default within the coming year; very high debt service capacity and balance sheets show no sign of any weakness • has ready access to adequate funding sources • high degree of stability, substance and diversity • of the highest quality under virtual economic conditions
2	Strong	• low probability of going into default in the coming year • access to money markets is relatively good • business remains viable under normal market conditions • strong market position with a history of successful financial performance • financials show adequate cash flows for debt servicing and generally conservative balance sheets
3	Good	• sound but may be susceptible, to a limited extent, to cyclical changes in the markets in which they operate • financial performance is good and capacity to service debt remains comfortable • cash flows remain healthy and critical balance sheet ratios are at par with industry norms • reported profits in the past three years and expected to sustain profitability in the coming year
4	Satisfactory	• clear risk elements exist and probability of going into default is somewhat greater, as reflected in the volatility of earnings and overall performance • normally have limited access to public financial markets • able to withstand normal business cycles, but expected to deteriorate beyond acceptable levels under prolonged unfavorable economic period • combination of reasonably sound asset and cash flow protection
5	Acceptable	• risk elements for the Parent Company are sufficiently pronounced, but would still be able to withstand normal business cycles • immediate deterioration beyond acceptable levels is expected given prolonged unfavorable economic period • there is sufficient cash flow either historically or expected in the future in spite of economic downturn combined with asset protection
5B	Acceptable	• financial condition hard to ascertain due to weak validation of financial statements coupled by funding leakages to other business interests whose financial condition is generally unknown • continuous decline in revenues and margins due to competition; increasing debt levels not commensurate to growth in revenues and funding requirements • thin margin business with banks financing bulk of working capital and capex requirements coupled by substantial dividend pay-outs • chronically tight cash flows with operating income negative or barely enough for debt servicing • lines with banks maxed out and availments evergreen with minimal payments made over time or with past record of past due loans with other banks, cancelled credit cards and court cases
6	Watchlist	• affected by unfavorable industry or company-specific risk factors • operating performance and financial strength may be marginal and ability to attract alternative sources of finance is uncertain • difficulty in coping with any significant economic downturn; some payment defaults encountered • net losses for at least two consecutive years
7	Special Mention	• ability or willingness to service debt are in doubt • weakened creditworthiness • expected to experience financial difficulties, putting the Parent Company's exposure at risk
8	Substandard	• collectability of principal or interest becomes questionable by reason of adverse developments or important weaknesses in financial cover • negative cash flows from operations and negative interest coverage • past due for more than 90 days • there exists the possibility of future loss to the Parent Company unless given closer supervision
9	Doubtful	• unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service are doubtful • with non-performing loan (NPL) status • previously rated 'Substandard' by the BSP • loss on credit exposure unavoidable
10	Loss	• totally uncollectible • prospect of re-establishment of creditworthiness and debt service is remote • lender shall take or has taken title to the assets and is preparing foreclosure and/or liquidation although partial recovery may be obtained in the future • considered uncollectible or worthless and of such little value that continuance as bankable assets is not warranted although the loans may have some recovery or salvage value

It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates a focused management of the applicable risk and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Parent Company's rating policy. The risk ratings are assessed and updated regularly.

Credit Quality Profile as of December 31, 2016 and 2015

External ratings

The Group also uses external ratings, such as Standard & Poor's, Moody's, and Fitch, to evaluate its counterparties and in its assignment of credit risk weights to its banking book exposures. Transactions falling under this category are normally of the following nature: placements with other banks, money market lending, debt security investments, and to some extent, equity security investments.

Investments and financial securities

The table below shows credit quality, based on external ratings, per class of financial assets that are neither past due nor impaired of the Group:

	2016			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱39,343,143	₱–	₱–	₱39,343,143
Due from other banks	6,947,356	3,281	20,008	6,970,645
IBLR	7,502,748	–	–	7,502,748
Financial assets at FVTPL:				
Government securities	994,086	–	–	994,086
Private bonds	4,246,512	–	16,709	4,263,221
Equity securities	–	–	10,443	10,443
	5,240,598	–	27,152	5,267,750
Investment securities at amortized cost:				
Government securities	5,760,891	–	–	5,760,891
Private bonds	5,368,618	–	–	5,368,618
	11,129,509	–	–	11,129,509
Financial assets at FVTOCI:				
Quoted equity securities	–	–	500	500
	–	–	500	500
	₱70,163,354	₱3,281	₱47,660	₱70,214,295

	2015			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱30,908,680	₱–	₱–	₱30,908,680
Due from other banks	5,348,811	3,110	25,005	5,376,926
IBLR	7,722,546	–	–	7,722,546
Financial assets at FVTPL:				
Government securities	4,344,376	–	–	4,344,376
Private bonds	3,571,730	2,459,078	155,174	6,185,982
Equity securities	–	–	10,448	10,448
	7,916,106	2,459,078	165,622	10,540,806
Investment securities at amortized cost:				
Government securities	4,046,482	–	–	4,046,482
Private bonds	571,416	–	–	571,416
	4,617,898	–	–	4,617,898
Financial assets at FVTOCI:				
Quoted equity securities	–	–	6,255	6,255
	–	–	6,255	6,255
	₱56,514,041	₱2,462,188	₱196,882	₱59,173,111

The table below shows credit quality, based on external ratings, per class of financial assets that are neither past due nor impaired of the Parent Company:

	2016			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱39,019,501	₱–	₱–	₱39,019,501
Due from other banks	6,917,685	3,231	20,008	6,940,924
IBLR	7,502,748	–	–	7,502,748
Financial assets at FVTPL:				
Government securities	994,086	–	–	994,086
Private bonds	4,246,512	–	16,709	4,263,221
Equity securities	–	–	10,443	10,443
	5,240,598	–	27,152	5,267,750
Investment securities at amortized cost:				
Government securities	5,760,891	–	–	5,760,891
Private bonds	5,368,618	–	–	5,368,618
	11,129,509	–	–	11,129,509
Financial assets at FVTOCI:				
Quoted equity securities	–	–	500	500
	–	–	500	500
	₱69,810,041	₱3,231	₱47,660	₱69,860,932

	2015			
	AA/A	BB/B	Unrated	Total
Due from BSP	₱30,725,169	₱–	₱–	₱30,725,169
Due from other banks	5,282,184	3,110	25,005	5,310,299
IBLR	7,722,546	–	–	7,722,546
Financial assets at FVTPL:				
Government securities	4,344,376	–	–	4,344,376
Private bonds	3,571,730	2,459,078	155,174	6,185,982
Equity securities	–	–	10,448	10,448
	7,916,106	2,459,078	165,622	10,540,806
Investment securities at amortized cost:				
Government securities	4,046,482	–	–	4,046,482
Private bonds	571,416	–	–	571,416
	4,617,898	–	–	4,617,898
Financial assets at FVTOCI:				
Quoted equity securities	–	–	6,255	6,255
	–	–	6,255	6,255
	₱56,263,903	₱2,462,188	₱196,882	₱58,922,973

The tables below show the credit quality, based on the credit rating system, by class of loans and receivables that are neither past due nor impaired (i.e., non-performing or past due by more than 90 days) of the Group.

	2016				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱23,324,955	₱38,820,131	₱–	₱–	₱62,145,086
Consumer lending	29,098,534	63,710,662	26,082,472	–	118,891,668
	52,423,489	102,530,793	26,082,472	–	181,036,754
Unquoted debt securities	–	–	–	326,601	326,601
Accounts receivable	–	–	–	1,132,955	1,132,955
Accrued interest receivable	–	–	–	1,936,025	1,936,025
Sales contract receivable	–	–	–	176,648	176,648
	–	–	–	3,572,229	3,572,229
	₱52,423,489	₱102,530,793	₱26,082,472	₱3,572,229	₱184,608,983

	2015				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱29,510,723	₱33,805,024	₱–	₱–	₱63,315,747
Consumer lending	15,661,611	40,784,769	23,900,929	–	80,347,309
	45,172,334	74,589,793	23,900,929	–	143,663,056
Unquoted debt securities	–	–	–	311,088	311,088
Accounts receivable	–	–	–	908,412	908,412
Accrued interest receivable	–	–	–	1,482,532	1,482,532
Sales contract receivable	–	–	–	205,841	205,841
	–	–	–	2,907,873	2,907,873
	₱45,172,334	₱74,589,793	₱23,900,929	₱2,907,873	₱146,570,929

The tables below show the credit quality, based on the credit rating system, by class of loans and receivables that are neither past due nor impaired of the Parent Company:

	2016				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱23,324,955	₱38,820,131	₱–	₱–	₱62,145,086
Consumer lending	16,962,601	63,710,662	26,082,472	–	106,755,735
	40,287,556	102,530,793	26,082,472	–	168,900,821
Unquoted debt securities	–	–	–	326,601	326,601
Accounts receivable	–	–	–	1,214,212	1,214,212
Accrued interest receivable	–	–	–	1,809,971	1,809,971
Sales contract receivable	–	–	–	176,648	176,648
	–	–	–	3,527,432	3,527,432
	₱40,287,556	₱102,530,793	₱26,082,472	₱3,527,432	₱172,428,253

	2015				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱29,510,723	₱33,805,024	₱–	₱–	₱63,315,747
Consumer lending	8,537,978	40,784,769	23,723,191	–	73,045,938
	38,048,701	74,589,793	23,723,191	–	136,361,685
Unquoted debt securities	–	–	–	300,771	300,771
Accounts receivable	–	–	–	1,985,414	1,985,414
Accrued interest receivable	–	–	–	1,426,646	1,426,646
Sales contract receivable	–	–	–	205,841	205,841
	–	–	–	3,918,672	3,918,672
	₱38,048,701	₱74,589,793	₱23,723,191	₱3,918,672	₱140,280,357

Borrowers with unquestionable repaying capacity and to whom the Group is prepared to lend on an unsecured basis, either partially or totally, are generally rated as High Grade borrowers. Included in the High-Grade category are those accounts that fall under 'Excellent', 'Strong', 'Good' and 'Satisfactory' categories under ICRRS (with rating of 1-4).

Standard rated borrowers normally require tangible collateral, such as real estate mortgage (REM), to either fully or partially secure the credit facilities as such accounts indicate a relatively higher credit risk than those considered as High Grade. Included in Standard Grade category are those accounts that fall under 'Acceptable', 'Watchlist' and 'Special mention' categories under ICRRS (with rating of 5-7).

Substandard Grade accounts pertain to corporate accounts falling under the 'Substandard,' 'Doubtful' and 'Loss' categories under ICRRS (with rating of 8-10) and unsecured revolving credit facilities.

Those accounts that are classified as unrated includes unquoted debt securities, accounts receivable, accrued interest receivable and sales contract receivable for which the Group has not yet established a credit rating system.

Impairment Assessment
On a regular basis, the Group conducts an impairment assessment exercise to determine expected losses on its loans portfolio.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 to 90 days as applicable, 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.

a. Specific Impairment Testing
Specific impairment testing is the process whereby classified accounts are individually significant subject to impairment testing. Classified accounts are past due accounts and accounts whose credit standing and/or collateral has weakened due to varying circumstances. This present status of the account may adversely affect the collection of both principal and interest payments.

Indicators of impairment testing are past due accounts, decline in credit rating from independent rating agencies and recurring net losses.

The net recoverable amount is computed using the present value approach. The discount rate used for loans with fixed and floating interest rate is the original effective interest rate and last repriced interest rate, respectively. Net recoverable amount is the total cash inflows to be collected over the entire term of the loan or the expected proceeds from the sale of collateral. Specific impairment testing parameters include the account information (original and outstanding loan amount), interest rate (nominal and historical effective) and the business plan. Also included are the expected date of recovery, expected cash flows, probability of collection, and the carrying value of loan and net recoverable amount.

The Group conducts specific impairment testing on classified (i.e. rated 7-10) and restructured corporate accounts.

b. Collective Impairment Testing
All other accounts which were not individually assessed are grouped based on similar credit characteristics and are collectively assessed for impairment under the Collective Impairment Testing. This is also in accordance with PAS 39, which provides that all loan accounts not included in the specific impairment test shall be subjected to collective testing.

Collective impairment testing of corporate accounts
Corporate accounts, which are unclassified and with current status are grouped in accordance with the Parent Company's internal credit risk rating. Each internal credit risk rating would fetch an equivalent loss impairment where the estimated loss is determined in consideration of the Parent Company's historical loss experience. Impairment loss is derived by multiplying the outstanding loan balance on a per internal credit risk rating basis against a factor rate. The factor rate, which estimates the expected loss from the credit exposure, is the product of the Default Rate (DR) and the Loss Given Default Rate (LGDR). DR is estimated based on the 3-year historical average default experience by internal credit risk rating of the Parent Company, while, LGDR is estimated based on loss experience (net of recoveries from collateral) for the same reference period.

Collective impairment testing of consumer accounts
Consumer accounts, both in current and past due status are collectively tested for impairment as required under PAS 39. Accounts are grouped by type of product - personal loans, salary loans, housing loans, auto loans and credit cards.

The estimation of the impaired consumer products' estimated loss is based on three major concepts: age buckets, probability of default and recoverability. Per product, exposures are categorized per their state of delinquency - (1) current; (2) past due (which is subdivided into 30, 60, 90, 120, 150, 180 and more than 180 days past due); and (3) items in litigation (ITL). Auto, housing and salary loans have an additional bucket for its items in litigation accounts. The Group partitions its exposures as it recognizes that the age buckets have different rates and/ or probabilities of default. The initial estimates of losses per product due to default are then adjusted based on the recoverability of cash flows, to calculate the expected loss of the Group. Auto and housing loans consider the proceeds from the eventual sale of foreclosed collaterals in approximating its recovery rate; while credit cards, salary loans and personal loans depend on the collection experience of its receivables. Further for housing loans, due to the nature of the assets offered as security, and as the exposures are limited to a certain percentage of the same, this product possesses the unique quality of obtaining over 95% recoverability. These default and recovery rates are based on the Group's historical experience, which covers a minimum of two to three (2-3) years cycle, depending on the availability and relevance of data.

The table below shows the aging analysis of the past due but not impaired loans and receivables per class of the Group and of the Parent Company. Under PFRS 7, a financial asset is past due when a counterparty has failed to make payments when contractually due.

	Consolidated					
	2016					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱9,084	₱25,657	₱34,741	₱–	₱–	₱69,482
Consumer lending	194,418	1,551,634	2,630,597	146,949	293,569	4,817,167
	₱203,502	₱1,577,291	₱2,665,338	₱146,949	₱293,569	₱4,886,649

	Consolidated					
	2015					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱–	₱–	₱380,359	₱–	₱–	₱380,359
Consumer lending	33,894	1,169,920	955,021	126,177	510,913	2,795,925
	₱33,894	₱1,169,920	₱1,335,380	₱126,177	₱510,913	₱3,176,284

	Parent Company					
	2016					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱9,084	₱25,657	₱34,741	₱–	₱–	₱69,482
Consumer lending	103,800	1,503,740	2,607,636	146,949	293,569	4,655,694
	₱112,884	₱1,529,397	₱2,642,377	₱146,949	₱293,569	₱4,725,176

	Parent Company					
	2015					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱–	₱–	₱380,359	₱–	₱–	₱380,359
Consumer lending	7,118	1,156,725	945,643	118,628	500,944	2,729,058
	₱7,118	₱1,156,725	₱1,326,002	₱118,628	₱500,944	₱3,109,417

Collaterals of past due but not impaired loans mostly consist of real estate mortgage (REM) of industrial, commercial, residential and developed agricultural real estate properties.

Credit risk weighting as of December 31, 2016, and 2015

Total credit risk exposure after risk mitigation

The table below shows the different credit risk exposures of the Group and of the Parent Company after credit risk mitigation, by risk weight applied in accordance with BSP Circular No. 538 (amounts in thousands):

	Consolidated							
	2016							
	Capital Deduction	Risk Buckets						
		0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱9,614,907	₱48,247,058	₱8,501,905	₱17,846,120	₱10,434,958	₱171,724,904	₱8,246,818	₱265,001,763
Off-balance sheet assets	–	–	–	–	–	1,720,813	–	1,720,813
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	9,614,907	48,247,058	8,501,905	17,846,120	10,434,958	173,445,717	8,246,818	266,722,576
Credit Risk Weighted Assets	₱–	₱–	₱1,700,381	₱8,923,060	₱7,826,219	₱173,445,717	₱12,370,227	₱204,265,604

	Consolidated							
	2015							
	Capital Deduction	Risk Buckets						
		0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱6,750,832	₱36,774,559	₱8,283,711	₱5,132,861	₱7,773,482	₱144,195,447	₱6,982,741	₱209,142,801
Off-balance sheet assets	–	–	–	–	–	2,515,734	–	2,515,734
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	203,672	–	203,672
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	6,750,832	36,774,559	8,283,711	5,132,861	7,773,482	146,914,853	6,982,741	211,862,207
Credit Risk Weighted Assets	₱–	₱–	₱1,656,742	₱2,566,431	₱5,830,112	₱146,914,853	₱10,474,112	₱167,442,250

	Parent Company							
	2016							
	Capital Deduction	Risk Buckets						
		0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱11,697,265	₱47,813,844	₱8,499,166	₱17,846,120	₱10,434,958	₱159,629,336	₱8,048,494	₱252,271,918
Off-balance sheet assets	–	–	–	–	–	1,720,813	–	1,720,813
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	11,697,265	47,813,844	8,499,166	17,846,120	10,434,958	161,350,149	8,048,494	253,992,731
Credit Risk Weighted Assets	₱–	₱–	₱1,699,833	₱8,923,060	₱7,826,219	₱161,350,149	₱12,072,741	₱191,872,002

	Parent Company							
	2015							
	Capital Deduction	Risk Buckets						
		0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱7,481,433	₱36,521,551	₱8,283,181	₱5,132,861	₱7,763,824	₱137,544,249	₱6,968,646	₱202,214,312
Off-balance sheet assets	–	–	–	–	–	2,515,734	–	2,515,734
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	203,672	–	203,672
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	7,481,433	36,521,551	8,283,181	5,132,861	7,763,824	140,263,655	6,968,646	204,933,718
Credit Risk Weighted Assets	₱–	₱–	₱1,656,636	₱2,566,431	₱5,822,868	₱140,263,655	₱10,452,969	₱160,762,559

Liquidity Risk

Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. The main responsibility of daily asset liability management lies with the Parent Company's Treasury Group, specifically the Liquidity Desk, and the Subsidiary's Fund Management Department which are tasked to manage the balance sheet and have thorough understanding of the risk elements involved in the respective businesses. Only the Parent Company and the Rural Bank subsidiary are potentially exposed to liquidity risk exposures, where their liquidity risk management are monitored by their respective ALCOs. Resulting analysis of the balance sheet along with the recommendation is presented during the weekly ALCO meeting where deliberations, formulation of actions and decisions are made to minimize risk and maximize returns. Discussions include actions taken in the previous ALCO meeting, economic and market status and outlook, liquidity risk, pricing and interest rate structure, limit status and utilization. To ensure that both the Parent Company and Subsidiary has sufficient liquidity at all times, the respective ALCO formulates a contingency funding plan which sets out the amount and the sources of funds (such as unutilized credit facilities) available to both entities and the circumstances under which such funds will be used.

By way of the Maximum Cumulative Outflow (MCO) limit, the Group is able to manage its long-term liquidity risks by placing a cap on the outflow of cash on a per tenor and on a cumulative basis. The Group takes a multi-tiered approach to maintaining liquid assets. The Group's principal source of liquidity is comprised of COCI, Due from BSP, Due from other banks and IBLR with maturities of less than one year. In addition to regulatory reserves, the Parent Company maintains a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be realized quickly.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below shows the maturity profile of the financial assets and liabilities of the Group and of the Parent Company, based on its internal methodology that manages liquidity based on contractual undiscounted cash flows (amounts in millions):

	Consolidated 2016						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱52,938	₱7,503	₱–	₱–	₱–	₱–	₱60,441
Investments and trading securities**	–	5,803	90	408	224	13,470	19,995
Loans and receivables***	–	25,751	37,165	25,386	32,485	121,758	242,545
	₱52,938	₱39,057	₱37,255	₱25,794	₱32,709	₱135,228	₱322,981
Financial Liabilities							
Deposit liabilities****	₱–	₱10,308	₱14,104	₱15,324	₱5,571	₱209,704	₱255,011
Bills and acceptances payable	–	482	472	497	744	–	2,195
Subordinated debt	–	–	–	–	–	4,969	4,969
Other liabilities	–	1,597	–	–	–	7,856	9,453
Contingent liabilities	–	1,631	9	3	9	91	1,743
	₱–	₱14,018	₱14,585	₱15,824	₱6,324	₱222,620	₱273,371

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts, allowance for probable losses, investment properties, other intangible assets and other assets.
****Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	Consolidated 2015						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱49,908	₱–	₱–	₱–	₱–	₱127	₱50,035
Investments and trading securities**	–	6,165	3,398	3,636	5,668	2,368	21,235
Loans and receivables***	–	32,433	13,073	11,542	16,031	116,641	189,720
	₱49,908	₱38,598	₱16,471	₱15,178	₱21,699	₱119,136	₱260,990
Financial Liabilities							
Deposit liabilities****	₱–	₱7,703	₱10,556	₱11,442	₱4,143	₱165,517	₱199,361
Bills and acceptances payable	–	2,951	–	–	–	123	3,074
Subordinated debt	–	–	1,500	–	–	4,967	6,467
Other liabilities	639	17	16	17	61	8,759	9,509
Contingent liabilities	–	129	59	204	521	180	1,093
	₱639	₱10,800	₱12,131	₱11,663	₱4,725	₱179,546	₱219,504

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts, allowance for probable losses, investment properties, other intangible assets and other assets.
****Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	Parent Company 2016						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱52,472	₱7,503	₱–	₱–	₱–	₱–	₱59,975
Investments and trading securities**	–	5,803	90	408	224	15,746	22,271
Loans and receivables***	–	24,053	34,751	24,329	30,800	116,207	230,140
	₱52,472	₱37,359	₱34,841	₱24,737	₱31,024	₱131,953	₱312,386
Financial Liabilities							
Deposit liabilities****	₱–	₱9,656	₱13,235	₱14,270	₱5,080	₱202,523	₱244,764
Bills and acceptances payable	–	482	472	497	744	–	2,195
Subordinated debt	–	–	–	–	–	4,969	4,969
Other liabilities	–	1,587	–	–	–	7,595	9,182
Contingent liabilities	–	1,631	9	3	9	91	1,743
	₱–	₱13,356	₱13,716	₱14,770	₱5,833	₱215,178	₱262,853

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts, allowance for probable losses, investment properties, other intangible assets and other assets.
****Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

	Parent Company 2015						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱49,295	₱–	₱–	₱–	₱–	₱127	₱49,422
Investments and trading securities**	–	6,165	3,398	3,636	5,668	2,368	21,235
Loans and receivables***	–	31,949	12,647	10,910	14,796	111,285	181,587
	₱49,295	₱38,114	₱16,045	₱14,546	₱20,464	₱113,780	₱252,244
Financial Liabilities							
Deposit liabilities****	₱–	₱7,365	₱10,105	₱10,897	₱3,888	₱161,534	₱193,789
Bills and acceptances payable	–	2,951	–	–	–	123	3,074
Subordinated debt	–	–	1,500	–	–	4,967	6,467
Other liabilities	765	16	15	16	61	7,272	8,145
Contingent liabilities	–	129	59	204	521	180	1,093
	₱765	₱10,461	₱11,679	₱11,117	₱4,470	₱174,076	₱212,568

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts, allowance for probable losses, investment properties, other intangible assets and other assets.
****Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

The Parent Company manages liquidity by maintaining sufficient liquid assets in the form of cash and cash equivalents, investment securities and loan receivables. As of December 31, 2016 and 2015, ₱99.86 billion and ₱69.85 billion, respectively, or 51.70% and 42.10%, respectively, of

the Parent Company's total gross loans and receivables had remaining maturities of less than one (1) year. The total portfolio of trading and investment securities is comprised mostly of sovereign-issued securities that have high market liquidity. The Parent Company was fully compliant with BSP's limits on FCDU Asset Cover and FCDU Liquid Assets Cover, having reported ratios above 100.00% as of December 31, 2016 and 2015. With the above presented liquidity profile, the Group remains to be inhibited from liquidity risk that it can't adequately manage.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Parent Company treats exposures to market risk as either for trading or accrual/balance sheet exposure. The market risk for the trading portfolio is measured using Value at Risk (VaR). Interest rate risk of accrual portfolios in the Banking Book are measured using Earnings at Risk (EaR).

Market risk in the trading book

The Board has set limits on the level of market risk that may be accepted. VaR limits are applied at the instrument level and approved by the BOD based on, among other things, a business unit's capacity to manage price risks, the size and distribution of the aggregate exposure to price risks and the expected return relative to price risks.

The Parent Company applies the VaR methodology to assess the market sensitive positions held for trading and to estimate the potential economic loss based on parameters and assumptions. VaR is a method used in measuring market risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

Objectives and limitations of the VaR Methodology

The Parent Company uses the VaR model of Bloomberg Portfolio Analytics using one-year historical data set to assess possible changes in the market value of the Fixed Income, Equities, and Foreign Exchange trading portfolio. VaR for the US Treasury Futures is measured using Historical Simulation using an internally developed excel spreadsheet. The Interest Rate Swaps (IRS) and FX Forwards (Outright and forward leg of FX Swaps) trading portfolio's interest rate risk is measured using Monte Carlo VaR using OPICS Risk Plus. The VaR models are designed to measure market risk in a normal market environment. The use of VaR has limitations because correlations and volatilities in market prices are based on historical data and VaR assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated.

VaR may also be under or overestimated due to assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, VaR only represents the risk of the portfolio at the close of each business day, and it does not account for any losses that may occur beyond the specified confidence level.

In practice, actual trading results will differ from the VaR calculation and the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored through hypothetical and actual backtesting to test the accuracy of the VaR model.

Stress testing provides a means of complementing VaR by simulating the potential loss impact on market risk positions from extreme market conditions, such as risk factor movements based on historical financial market stress conditions and scenarios adopted from the uniform stress testing framework of the BSP.

VaR assumptions

The VaR that the Parent Company uses is premised on a 99% confidence level that this potential loss estimate is not expected to be exceeded if the current market risk positions were to be held unchanged for a given holding period. Foreign exchange and US Treasury Futures VaR is measured using one (1) day holding period while fixed income VaR has a holding period of five (5) days. Furthermore, the Parent Company's equity and interest rate swap (IRS) trading positions are assumed to be closed out in ten (10) days. The use of a 99% confidence level means that within the set time horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

VaR is an integral part of the Parent Company's market risk management and encompasses investment positions held for trading. VaR exposures form part of the market risk monitoring which is reviewed daily against the limit approved by the Board. The trading activities are controlled through the Market Risk Limit (MRL), which is a dynamic risk limit anchored on the principle of risk and return which is adjusted by net trading gains (added in half) or losses subtracted in whole. RMD reports compliance to the MRL and trader's VaR limits daily. If the MRL or individual trader's limit is exceeded, such occurrence is promptly reported to the Treasurer, Chief Operating Officer, Chief Risk Officer and the President, and further to the Board through the RMC.

The table below pertains to interest rate risk of the Parent Company's fixed income trading portfolio (amounts in thousands):

	2016	2015
Year-end VaR	**₱74,713**	₱162,989
Average VaR	**238,951**	186,191
Highest VaR	**581,383**	379,820
Lowest VaR	**71,761**	21,620

The year-end VaR for 2016 was based on the Parent Company's fixed income trading book valued at ₱4.90 billion with average yields of 2.26% and 3.81% for the Peso and Foreign currency denominated bonds, respectively. Its average maturities are 1 year and 1 month for the Peso portfolio and 5 years and 3 months for the foreign currency portfolio.

The year-end VaR for 2015 was based on the Parent Company's fixed income trading book valued at ₱8.50 billion with average yields of 3.85% and 3.55% for the Peso and Foreign currency denominated bonds, respectively. Its average maturities are 4 years and 4 months for the Peso portfolio and 5 years and 6 months for the foreign currency portfolio.

The market risk in the Parent Company's US Treasury Futures trading positions is shown in the table below (amounts in thousands):

	2016		2015
Year-end VaR	**₱14,911****		₱–
Average VaR	**7,709***	**9,940****	154
Highest VaR	**34,150***	**15,798****	581
Lowest VaR	**70***	**1,903****	–

** January 1 to November 23, 2016 - VaR is calculated using Bloomberg MARS*
*** November 24 to December 29, 2016 - VaR is calculated using an internally developed excel spreadsheet*

The market risk in the Parent Company's IRS trading positions is shown in the table below (amounts in thousands):

	2016	2015
Year-end VaR	**₱27,873**	₱21,842
Average VaR	**18,545**	19,965
Highest VaR	**30,517**	25,982
Lowest VaR	**14,168**	7,444

The Parent Company's end-2016 IRS positions have a notional amount of US$20.00 million where it pays fixed rate and receives floating rate interest.

The Parent Company commenced entering IRS in December 2014 with a notional amount of US$10.00 million where the Parent Company pays fixed rate and receives floating rate interest.

The interest rate risk in the Parent Company's FX forwards positions is shown in the table below (amounts in thousands):

	2016	2015*
Year-end VaR	**₱235**	₱212
Average VaR	**76**	222
Highest VaR	**564**	325
Lowest VaR	**2**	112

** Calculation of interest rate risk for FX forwards was started September 16, 2015*

The table below pertains to the market risk of the Parent Company's equity trading positions in 2015 (amounts in thousands):

Year-end VaR	₱–
Average VaR	806
Highest VaR	6,753
Lowest VaR	–

The Parent company has no equity position during 2016.

Foreign Currency Risk

The Parent Company holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financials and cash flows of the Parent Company. Managing the foreign exchange exposure is important for banks with exposures in foreign currencies. It includes purchase or sell of foreign currency to control the impact of changes in exchange rates on the financial position of the Parent Company.

The table below pertains to the foreign exchange risk of the Parent Company (amounts in thousands):

	2016	2015
Year-end VaR	**₱465**	₱3,161
Average VaR	**1,162**	2,329
Highest VaR	**9,630**	6,462
Lowest VaR	**13**	33

The Parent Company's foreign currency exposures emanate from its net open spot and forward FX purchase and sell transactions, and net foreign currency income accumulated over the years of its operations. Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. In the FCDU books, BSP requires banks to match the foreign currency assets with the foreign currency liabilities. Thus, banks are required to maintain at all times a 100.00% cover for their currency liabilities held through FCDU. The Parent Company follows said regulation as of December 31, 2016, and 2015.

Total foreign currency position is monitored through the daily BSP FX position reports, which are subject to the overbought and oversold limits set by the BSP at 20.00% of unimpaired capital or US$50.00 million, whichever is lower. Internal limits regarding the intraday trading and end-of-day trading positions in FX, which consider the trading desk and the branch FX transactions, are also monitored.

The table below summarizes the exposure to foreign currencies of the Parent Company as of December 31, 2016, and 2015 (amounts in thousands):

	2016		
	USD	Other Currencies	Total
Assets			
Gross FX assets	$743,214	$22,495	$765,709
Contingent FX assets	8,551	2,925	11,476
	751,765	25,420	777,185
Liabilities			
Gross FX liabilities	734,097	27,210	761,307
Contingent FX liabilities	16,925	36	16,961
	751,022	27,246	778,268
Net exposure	$743	($1,826)	($1,083)

	2015		
	USD	Other Currencies	Total
Assets			
Gross FX assets	$695,395	$13,530	$708,925
Contingent FX assets	26,000	2,197	28,197
	721,395	15,727	737,122
Liabilities			
Gross FX liabilities	686,129	13,091	699,220
Contingent FX liabilities	29,170	–	29,170
	715,299	13,091	728,390
Net exposure	$6,096	$2,636	$8,732

The table below indicates the sensitivity of the currencies which the Parent Company had significant exposures as of December 31, 2016, and 2015 (amounts in millions):

Foreign currency appreciates (depreciates)	2016 USD	2016 EUR	2016 SGD
+10.00%	**₱3.69**	**(₱6.50)**	**(₱3.22)**
-10.00%	**(3.69)**	**6.50**	**3.22**

Foreign currency appreciates (depreciates)	2015 USD	2015 EUR	2015 CNY
+10.00%	₱28.69	₱2.10	₱8.07
-10.00%	(28.69)	(2.10)	(8.07)

The analysis calculates the effect of a reasonably possible movement of the currency rate against Peso, with all other variables held constant on the statement of income. A negative amount reflects a potential net reduction in statement of income while a positive amount reflects a net potential increase. There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Market Risk in the Banking Book

Interest rate risk

A critical element of risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income. The short-term nature of its assets and liabilities reduces the exposure of its net interest income to such risks.

The Parent Company employs re-pricing gap analysis on a monthly basis to measure the interest rate sensitivity of its assets and liabilities. The re-pricing gap analysis measures, for any given period, any mismatches between the amounts of interest-earning assets and interest-bearing liabilities that would re-price, or mature (for contracts that do not re-price), during that period. The re-pricing gap is calculated by first distributing the assets and liabilities contained in the Group's statement of financial position into tenor buckets according to the time remaining to the next re-pricing date (or the time remaining to maturity if there is no re-pricing), and then obtaining the difference between the total of the re-pricing (interest rate sensitive) assets and re-pricing (interest rate sensitive) liabilities. If there is a positive gap, there is asset sensitivity which generally means that an increase in interest rates would have a positive effect on the Group's net interest income. If there is a negative gap, this generally means that an increase in interest rates would have a negative effect on net interest income.

The following table provides for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Group as of December 31, 2016 and 2015:

	2016				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	2.50%	–	–	–	–
Loans and receivables	3.99%	4.60%	4.90%	6.36%	10.64%
Investment securities	2.27%	5.70%	–	–	5.38%
Financial liabilities:					
Deposit liabilities	2.00%	2.44%	1.95%	1.72%	4.09%
Bills payable	1.65%	1.07%	1.11%	1.40%	–
Subordinated debt	–	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	0.59%	2.90%	3.05%	4.95%	6.13%
Investment securities	3.76%	3.52%	–	–	3.56%
Financial liabilities:					
Deposit liabilities	1.38%	1.69%	1.76%	1.93%	2.69%

	2015				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	4.55%	4.54%	4.95%	5.38%	7.83%
Investment securities	–	–	2.73%	1.63%	3.61%
Financial liabilities:					
Deposit liabilities	1.76%	2.04%	2.02%	2.35%	4.19%
Bills payable	1.10%	–	–	0.57%	–
Subordinated debt	7.50%	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	3.28%	2.37%	3.72%	–	6.64%
Investment securities	–	–	2.18%	1.79%	3.99%
Financial liabilities:					
Deposit liabilities	1.40%	1.38%	1.70%	1.94%	2.18%

The following table provides for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Parent Company as of December 31, 2016 and 2015:

	2016				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	2.50%	–	–	–	–
Loans and receivables	3.91%	4.59%	4.88%	6.28%	10.91%
Investment securities	2.27%	5.70%	–	–	5.38%
Financial liabilities:					
Deposit liabilities	1.96%	2.59%	1.75%	1.72%	4.09%
Bills payable	1.65%	1.07%	1.11%	1.40%	–
Subordinated debt	–	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	0.59%	2.90%	3.05%	4.95%	6.13%
Investment securities	3.76%	3.52%	–	–	3.56%
Financial liabilities:					
Deposit liabilities	1.38%	1.69%	1.76%	1.93%	2.69%

	2015				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	4.55%	4.52%	4.80%	5.10%	9.25%
Investment securities	–	–	2.73%	1.63%	3.61%
Financial liabilities:					
Deposit liabilities	1.78%	2.06%	2.06%	2.36%	4.19%
Bills payable	1.10%	–	–	0.57%	–
Subordinated debt	7.50%	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	3.28%	2.37%	3.72%	–	6.64%
Investment securities	–	–	2.18%	1.79%	3.99%
Financial liabilities:					
Deposit liabilities	1.40%	1.38%	1.70%	1.94%	2.18%

The following tables sets forth the interest rate re-pricing gap of the Group as of December 31, 2016 and 2015 (amounts in millions):

	2016					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets:						
Cash and cash equivalents	₱1,200	₱–	₱–	₱–	₱–	₱1,200
Loans and receivables	21,256	12,683	5,356	3,956	126,995	170,246
Investment securities	5,733	–	321	–	10,141	16,195
Contingent assets	–	994	–	–	–	994
Total financial assets	28,189	13,677	5,677	3,956	137,136	188,635
Financial liabilities:						
Deposit liabilities	99,404	2,657	550	516	16,951	120,078
Bills and acceptances payable	373	472	497	744	–	2,086
Subordinated debt	–	–	–	–	5,000	5,000
Contingent liabilities	–	–	–	–	994	994
Total financial liabilities	99,777	3,129	1,047	1,260	22,945	128,158
Asset-liability gap	(₱71,588)	₱10,548	₱4,630	₱2,696	₱114,191	₱60,477

	2015					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱–	₱–	₱–	₱–	₱–	₱–
Loans and receivables	30,884	7,716	4,971	3,542	79,397	126,510
Investment securities	2,048	1,955	1,993	5,836	3,235	15,067
Contingent assets	–	941	–	–	–	941
Total financial assets	32,932	10,612	6,964	9,378	82,632	142,518
Financial liabilities						
Deposit liabilities	55,628	15,737	2,656	1,149	16,748	91,918
Bills and acceptances payable	2,199	–	752	–	–	2,951
Subordinated debt	1,500	–	–	–	5,000	6,500
Contingent liabilities	–	–	–	–	941	941
Total financial liabilities	59,327	15,737	3,408	1,149	22,689	102,310
Asset-liability gap	(₱26,395)	(₱5,125)	₱3,556	₱8,229	₱59,943	₱40,208

The following tables sets forth the interest rate re-pricing gap of the Parent Company as of December 31, 2016 and 2015 (amounts in millions):

	2016					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets:						
Cash and cash equivalents	₱1,200	₱–	₱–	₱–	₱–	₱1,200
Loans and receivables	21,145	12,669	5,340	3,860	115,058	158,072
Investment securities	5,733	–	321	–	10,141	16,195
Contingent assets	–	994	–	–	–	994
Total financial assets	28,078	13,663	5,661	3,860	125,199	176,461
Financial liabilities:						
Deposit liabilities	92,192	1,077	453	498	16,951	111,171
Bills and acceptances payable	373	472	497	744	–	2,086
Subordinated debt	–	–	–	–	5,000	5,000
Contingent liabilities	–	–	–	–	994	994
Total financial liabilities	92,565	1,549	950	1,242	22,945	119,251
Asset-liability gap	(₱64,487)	₱12,114	₱4,711	₱2,618	₱102,254	₱57,210

	2015					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱–	₱–	₱–	₱–	₱–	₱–
Loans and receivables	30,789	7,696	4,954	3,477	73,578	120,494
Investment securities	4,003	1,993	2,663	3,173	3,235	15,067
Contingent assets	–	941	–	–	–	941
Total financial assets	34,792	10,630	7,617	6,650	76,813	136,502
Financial liabilities						
Deposit liabilities	51,259	14,913	2,546	1,130	16,748	86,596
Bills and acceptances payable	2,199	–	752	–	–	2,951
Subordinated debt	1,500	–	–	–	5,000	6,500
Contingent liabilities	–	–	–	–	941	941
Total financial liabilities	54,958	14,913	3,298	1,130	22,689	96,988
Asset-liability gap	(₱20,166)	(₱4,283)	₱4,319	₱5,520	₱54,124	₱39,514

With the above negative re-pricing profile, the Group could expect positive returns from the following months after the end of 2016 should there be a downward movement in interest rates.

The Group also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Group's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Group's non-trading net interest income (amounts in millions). There is no other impact on the Group's equity other than those already affecting the statements of income.

Change in basis points	2016	2015
+100bps	(₱562.5)	(₱252.9)
-100bps	562.5	252.9

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Parent Company's non-trading net interest income (amounts in millions). There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Change in basis points	2016	2015
+100bps	(₱481.1)	(₱188.2)
-100bps	481.1	188.2

Market Risk Weighting as of December 31, 2016 and 2015

The table below shows the different market risk-weighted assets (amounts in millions) of the Parent Company using the standardized approach:

Type of Market Risk Exposure	2016	2015
Interest Rate Exposures	₱5,726	₱5,419
Foreign Exchange Exposures	110	411
	₱5,836	₱5,830

Only the Parent Company has a trading book portfolio.

Operational Risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, compliance and reputational risks but excludes strategic risk.

Adopting the Basic Indicator Approach in computing, below is the total operational risk-weighted assets of the Group and Parent Company (amounts in millions).

	2016	2015
Group	₱26,313	₱22,426
Parent Company	24,489	21,167

Other Risk Exposures

Group risk exposures other than credit, market, liquidity and operational, while existent, are deemed insignificant relative to the mentioned risks and if taken in isolation. Hence, management of these risks are instead collectively performed and made an integral part of the Group's internal capital adequacy assessment process (ICAAP) and enterprise risk management initiatives.

The last internal capital adequacy assessment results of the Group show that these other risks remain insignificant to pose a threat on the Group's capacity to comply with the minimum capital adequacy prescriptions of 6%, with the buffers, as applicable, and 10% as prescribed by BSP for common equity tier 1 (CET1) and capital adequacy ratio (CAR), respectively.

5. Fair Value Measurement

The following table provides the fair value hierarchy of the Group's and of the Parent Company's assets and liabilities measured at fair value and those for which fair values are required to 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:					
HFT investments:					
Government securities	₱994,086	₱994,086	₱994,086	₱–	₱–
Private bonds	4,263,221	4,263,221	4,263,221	–	–
Equity securities	10,443	10,443	10,443	–	–
	5,267,750	5,267,750	5,267,750	–	–
Derivative assets	167,665	167,665	–	167,665	–
Financial assets at FVTOCI	500	500	500	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	5,760,891	5,746,513	5,746,513	–	–
Private bonds	5,368,618	5,380,441	5,380,441	–	–
	11,129,509	11,126,954	11,126,954	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	61,431,319	59,498,698	–	–	59,498,698
Consumer lending	128,738,093	131,384,147	–	–	131,384,147
Unquoted debt securities	326,601	395,356	–	–	395,356
	190,496,013	191,278,201	–	–	191,278,201
Non-financial assets					
Investment properties	699,667	1,193,483	–	–	1,193,483
Total assets	₱207,761,104	₱209,034,553	₱16,395,204	₱167,665	₱192,471,684
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱194,164	₱194,164	₱–	₱194,164	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	103,112,716	104,417,148	–	–	104,417,148
LTNCD	8,035,283	8,543,046	–	–	8,543,046
	111,147,999	112,960,194	–	–	112,960,194
Subordinated debt	4,969,460	5,682,923	–	–	5,682,923
Total liabilities	₱116,311,623	₱118,837,281	₱–	₱194,164	₱118,643,117

	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 assets at FVTPL:					
HFT investments:					
Government securities	₱4,344,376	₱4,344,376	₱4,344,376	₱–	₱–
Private bonds	6,185,982	6,185,982	6,185,982	–	–
Equity securities	10,448	10,448	10,448	–	–
	10,540,806	10,540,806	10,540,806	–	–
Derivative assets	167,491	167,491	–	167,491	–
Financial assets at FVTOCI	6,255	6,255	6,255	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	4,046,482	4,184,434	4,184,434	–	–
Private bonds	571,416	568,725	568,725	–	–
	4,617,898	4,753,159	4,753,159	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	63,181,881	63,946,546	–	–	63,946,546
Consumer lending	86,185,338	85,167,292	–	–	85,167,292
Unquoted debt securities	340,761	443,668	–	–	443,668
	149,707,980	149,557,506	–	–	149,557,506
Non-financial assets					
Investment properties	727,613	1,177,473	–	–	1,177,473
Total assets	₱165,768,043	₱166,202,690	₱15,300,220	₱167,491	₱150,734,979
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱183,755	₱183,755	₱–	₱183,755	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	82,866,306	82,934,373	–	–	82,934,373
LTNCD	8,034,515	8,689,919	–	–	8,689,919
	90,900,821	91,624,292	–	–	91,624,292
Subordinated debt	6,466,516	7,412,376	–	–	7,412,376
Total liabilities	₱97,551,092	₱99,220,423	₱–	₱183,755	₱99,036,668

	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:					
HFT investments:					
Government securities	₱994,086	₱994,086	₱994,086	₱–	₱–
Private bonds	4,263,221	4,263,221	4,263,221	–	–
Equity securities	10,443	10,443	10,443	–	–
	5,267,750	5,267,750	5,267,750	–	–
Derivative assets	167,665	167,665	–	167,665	–
Financial assets at FVTOCI	500	500	500	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	5,760,891	5,746,513	5,746,513	–	–
Private bonds	5,368,618	5,380,441	5,380,441	–	–
	11,129,509	11,126,954	11,126,954	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	61,431,319	59,498,698	–	–	59,498,698
Consumer lending	116,489,355	119,735,371	–	–	119,735,371
Unquoted debt securities	326,601	395,356	–	–	395,356
	178,247,275	179,629,425	–	–	179,629,425
Non-financial assets					
Investment properties	698,970	1,192,721	–	–	1,192,721
Total assets	₱195,511,669	₱197,385,015	₱16,395,204	₱167,665	₱180,822,146
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱194,164	₱194,164	₱–	₱194,164	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	103,112,716	104,417,148	–	–	104,417,148
LTNCD	8,035,283	8,543,046	–	–	8,543,046
	111,147,999	112,960,194	–	–	112,960,194
Subordinated debt	4,969,460	5,682,923	–	–	5,682,923
Total liabilities	₱116,311,623	₱118,837,281	₱–	₱194,164	₱118,643,117

	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:					
HFT investments:					
Government securities	₱4,344,376	₱4,344,376	₱4,344,376	₱–	₱–
Private bonds	6,185,982	6,185,982	6,185,982	–	–
Equity securities	10,448	10,448	10,448	–	–
	10,540,806	10,540,806	10,540,806	–	–
Derivative assets	167,491	167,491	–	167,491	–
Financial assets at FVTOCI	6,255	6,255	6,255	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	4,046,482	4,184,434	4,184,434	–	–
Private bonds	571,416	568,725	568,725	–	–
	4,617,898	4,753,159	4,753,159	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	63,181,881	63,946,546	–	–	63,946,546
Consumer lending	78,925,589	77,770,602	–	–	77,770,602
Unquoted debt securities	330,444	443,352	–	–	443,352
	142,437,914	142,160,500	–	–	142,160,500
Non-financial assets					
Investment properties	726,916	1,176,692	–	–	1,176,692
Total assets	₱158,497,280	₱158,804,903	₱15,300,220	₱167,491	₱143,337,192
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱183,755	₱183,755	₱–	₱183,755	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	78,537,054	78,539,906	–	–	78,539,906
LTNCD	8,034,515	8,689,919	–	–	8,689,919
	86,571,569	87,229,825	–	–	87,229,825
Subordinated debt	6,466,516	7,412,376	–	–	7,412,376
Total liabilities	₱93,221,840	₱94,825,956	₱–	₱183,755	₱94,642,201

In 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

COCI, due from BSP and other banks and IBLR - The carrying amounts approximate fair values due to the short-term nature of these accounts. IBLR consist mostly of overnight deposits and floating rate placements.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices.

Derivative instruments - Fair values of derivative instruments, mainly currency forwards and swaps and interest rate swaps, are valued using a valuation technique with market observable inputs. The valuation technique applied includes forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, yield curves of the respective currencies and interest rate curves prevailing at the statement of financial position date.

Liabilities - The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities of these liabilities except for time deposit liabilities, LTNCD and subordinated debt whose fair value are estimated using the discounted cash flow methodology using the Parent Company's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Derivative Financial Instruments

The Parent Company's freestanding derivative financial instruments, which mainly consist of foreign currency forwards and swaps and interest rate swaps, are transactions not designated as accounting hedges. The table below sets out information about the Parent Company's derivative financial instruments and the related fair value as of December 31, 2016 and 2015:

Foreign Currency Forwards and Swaps	2016	2015
Notional amount	**$2,969**	$13,113
Derivative assets	**₱573**	₱3,837
Derivative liabilities	**21,451**	581

Interest Rate Swaps	2016	2015
Notional amount	**$20,000**	$20,000
Derivative assets	**₱167,092**	₱163,654
Derivative liabilities	**172,713**	183,174

The net movements in fair value changes of all derivative instruments are as follows:

	2016	2015
Derivative assets (liabilities) - net at beginning of year	(₱16,264)	₱9,378
Changes in fair value of derivatives	(9,359)	(1,616,224)
Fair value of settled instruments	(876)	1,590,582
Derivative assets (liabilities) - net at end of year	(₱26,499)	(₱16,264)

Fair value changes of foreign currency forwards and swaps are recognized as Foreign exchange gain in the statements of income while fair value changes of interest rate swaps are recognized as part of Trading and securities gain (loss) (see Note 8).

6. Segment Reporting

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the bank's identified markets. The Group's business segments are:

(a) **Retail banking** - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) **Corporate banking** - this segment handles lending and trade financing for both large corporations and middle market clients;

(c) **Consumer banking** - this segment primarily caters to loans for individuals;

(d) **Treasury and Trust** - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products;

The 'Elimination Items' includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are 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 are either 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 the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the years ended December 31, 2016, 2015 and 2014 follow (amounts in millions):

	2016					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱3,909	₱661	₱9,380	₱156	₱1,293	₱15,399
Intersegment	6	692	–	–	(698)	–
	3,915	1,353	9,380	156	595	15,399
Noninterest Income	1,280	110	3,659	622	505	6,176
Revenue - Net of Interest Expense	5,195	1,463	13,039	778	1,100	21,575
Noninterest Expense	(5,429)	(715)	(9,424)	(244)	(1,621)	(17,433)
Income Before Income Tax	(234)	748	3,615	534	(521)	4,142
Provision for Income Tax	(10)	(224)	(644)	(160)	304	(734)
Net Income for the Year	(₱244)	₱524	₱2,971	₱374	(₱217)	₱3,408
Statement of Financial Position						
Total Assets	₱48,752	₱69,057	₱109,712	₱21,676	₱42,621	₱291,818
Total Liabilities	226,139	42,220	4,129	10,806	(25,926)	257,368
Statement of Income						
Depreciation and Amortization	585	22	420	10	113	1,150
Provision for Impairment and Credit Losses	17	158	4,807	(7)	717	5,692

	2015					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱3,207	₱719	₱7,804	₱52	₱558	₱12,340
Intersegment	3	364	–	–	(367)	–
	3,210	1,083	7,804	52	191	12,340
Noninterest Income	942	92	2,889	(74)	127	3,976
Revenue - Net of Interest Expense	4,152	1,175	10,693	(22)	318	16,316
Noninterest Expense	(4,903)	(734)	(7,164)	(272)	(580)	(13,653)
Income Before Income Tax	(751)	441	3,529	(294)	(262)	2,663
Provision for Income Tax	–	–	–	–	(659)	(659)
Net Income for the Year	(₱751)	₱441	₱3,529	(₱294)	(₱921)	₱2,004
Statement of Financial Position						
Total Assets	₱40,431	₱67,353	₱76,798	₱26,066	₱22,208	₱232,856
Total Liabilities	174,295	24,846	2,056	11,796	(11,539)	201,454
Statement of Income						
Depreciation and Amortization	570	18	280	12	77	957
Provision for Impairment and Credit Losses	18	258	3,364	4	255	3,899

	2014					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱2,754	₱703	₱6,263	₱84	₱222	₱10,026
Intersegment	53	578	–	–	(631)	–
	2,807	1,281	6,263	84	(409)	10,026
Noninterest Income	765	214	2,839	810	232	4,860
Revenue - Net of Interest Expense	3,572	1,495	9,102	894	(177)	14,886
Noninterest Expense	(4,180)	(746)	(6,281)	(267)	(775)	(12,249)
Income Before Income Tax	(608)	749	2,821	627	(952)	2,637
Provision for Income Tax	–	–	–	–	(564)	(564)
Net Income for the Year	(₱608)	₱749	₱2,821	₱627	(₱1,516)	₱2,073
Statement of Financial Position						
Total Assets	₱37,246	₱61,300	₱57,649	₱18,048	₱14,020	₱188,263
Total Liabilities	141,846	36,105	2,971	14,360	(28,467)	166,815
Statement of Income						
Depreciation and Amortization	574	24	191	15	58	862
Provision for Impairment and Credit Losses	5	251	2,642	–	413	3,311

Noninterest income consists of service charges, fees and commissions, gain on sale of assets, gain on asset foreclosure and dacion transactions, trading and securities gain, gain on sale of investment securities at amortized cost, foreign exchange gain, trust income, share in net loss of a joint venture and miscellaneous income. The share in net loss of a joint venture has been presented as part of the elimination items in the Group's segment reporting framework. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Business Combination

On May 6, 2016, the Parent Company entered into an Asset and Share Transfer Agreement (the Agreement) with Standard Chartered Bank (SCB) and SCMB Overseas Limited for the acquisition of SCB Philippines' retail banking business (including all of SCB Philippines' three branches) and the transfer of 100% ownership of the entities, namely: Price Solutions Philippines, Inc. (PSPI) and Assurance Solutions Insurance Agency, Inc. (ASIA) (see Note 10).

The acquisition was approved by the BSP on August 8, 2016. On November 25, 2016, after satisfying all the conditions under the Agreement, the transfer of assets and liabilities was completed.

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

	Amount
Assets	
Cash	₱64,850
Loans and receivables	5,591,464
Property, plant and equipment	11,261
Investment properties	9,171
Deferred tax asset	5,946
Other assets	169,030
	5,851,722
Liabilities	
Deposit liabilities	7,324,178
Deferred income and bonus points	99,570
Accrued interest payable	2,983
Other liabilities	57,505
	7,484,236
Net liabilities assumed	₱1,632,514

As of November 25, 2016, the gross contractual amounts of the acquired loans and receivables and the estimated contractual amounts not expected to be collected amounted to ₱5.87 billion and ₱0.28 billion, respectively. The estimated amounts not expected to be collected are considered in the determination of the fair value of the receivables.

Goodwill from the acquisition is computed as follows:

Consideration transferred*	₱792,175
Fair value of net liabilities assumed	1,632,514
Provisional goodwill	₱2,424,689

**As of December 31, 2016, ₱0.35 million of the total consideration is still payable and recorded under 'Other liabilities'.*

The goodwill arising from the acquisition can be attributed mainly to expected operational synergies that will be brought by SCB's retail banking talent pool and expertise in wealth management.

As of December 31, 2016, the Parent Company's purchase price allocation for the acquisition is provisional as the identification and valuation of intangible assets are still to be finalized.

Merger of Green Bank, Inc. with the Parent Company

In 2011, the Parent Company acquired the voting shares of Green Bank (A Rural Bank), Inc. (GBI) which is engaged in the business of extending credit to small farmers and tenants and to deserving rural industries or enterprises and to transact all businesses which may be legally done by rural banks. With the regulatory approvals in 2014, GBI was merged with the Parent Company and the latter's investment in GBI was closed against the merged assets and liabilities as of the date of merger.

The assets and liabilities of GBI merged to the Parent Company were based on the carrying amounts in the consolidated financial statements of the Parent Company. The following are the carrying amounts of the assets and liabilities of GBI (including the goodwill, branch licenses and related deferred tax liability recognized at the acquisition of GBI in 2011) merged to the Parent Company at the date of merger:

	Carrying value recognized on date of merger
Assets	
Due from BSP	₱7,269
Loans and receivables	141,663
Bank premises, furniture, fixtures and equipment	22,870
Investment properties	189,146
Branch licenses	625,400
Goodwill	373,996
Other assets	2,661
	1,363,005
Liabilities	
Subordinated notes	112,500
Bills payable	128,200
Deferred tax liability of branch licenses	187,620
Accounts payable and accrued expenses	32,467
Other liabilities	174
	460,961
Carrying amount of the net assets merged	₱902,044

The excess of the carrying amount of the net assets of GBI merged to the Parent Company over the carrying amount of the Parent Company's Investment in GBI was recognized as an adjustment to Surplus, as shown below:

Carrying amount of the net assets merged	₱902,044
Carrying amount of the Parent Company's Investment in GBI	888,650
Adjustment to Surplus	₱13,394

8. Trading and Investment Securities

The Group and the Parent Company have the following trading and investment securities:

	2016	2015
Financial assets at FVTPL	₱5,267,750	₱10,540,806
Financial assets at FVTOCI	500	6,255
Investment securities at amortized cost	11,129,509	4,617,898
	₱16,397,759	₱15,164,959

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

	2016	2015
Held-for-trading:		
Private bonds	₱4,263,221	₱6,185,982
Government securities	994,086	4,344,376
Equity securities	10,443	10,448
	₱5,267,750	₱10,540,806

As of December 31, 2016 and 2015, financial assets at FVTPL include net unrealized gain of ₱28.67 million and net unrealized loss of ₱27.83 million, respectively.

Financial assets at FVTOCI
As of December 31, 2016 and 2015, financial assets at FVTOCI of the Group and of the Parent Company consist of quoted equity securities amounting to ₱0.50 million and ₱6.25 million, respectively.

The Group has designated the above equity investments as at FVTOCI because they are held for long-term investments rather than for trading.

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

Investment securities at amortized cost
Investment securities at amortized cost of the Group and of the Parent Company consist of:

	2016	2015
Government securities	₱5,760,891	₱4,046,482
Private bonds	5,368,618	571,416
	₱11,129,509	₱4,617,898

Peso-denominated government bonds have effective interest rates ranging from 4.45% to 5.70% in 2016 and effective interest rates ranging from 5.70% to 6.02% in 2015 and 2014. Foreign currency-denominated bonds have effective interest rates ranging from 2.87% to 7.07% in 2016, 2015 and 2014.

In 2016, there were no disposals of investment securities carried at amortized cost.

In 2015, the Parent Company sold securities carried at amortized cost, with aggregate carrying amount of ₱4.29 billion, and recognized a gain amounting to ₱287.36 million. The gain is presented as Gain on sale of investment securities at amortized cost in the statement of income. The sale was in anticipation of the effects of the upcoming regulatory requirements on liquidity coverage ratio. As a result of the sale, subsequent acquisitions of investment securities in the affected portfolios will be classified as financial assets at FVTPL while the remaining securities will remain to be classified as investment securities at amortized cost.

In 2014, the Parent Company sold securities carried at amortized cost, with aggregate carrying amount of ₱3.62 billion, and recognized a gain amounting to ₱306.00 million. The gain is presented as Gain on sale of investment securities at amortized cost in the statement of income.

The sale was driven by the need to improve the capital position of the Parent Company in relation to the change in the regulatory capital requirements caused by the Basel III implementation. As a result of the sale, subsequent acquisitions of investment securities in the affected portfolios will be classified as financial assets at FVTPL while the remaining securities will remain to be classified as investment securities at amortized cost.

Judgments made related to the sale and derecognition of investment securities at amortized cost are disclosed in Note 3.

Interest income on trading and investment securities of the Group and of the Parent Company are as follows:

	2016	2015	2014
Financial assets at FVTPL	**₱348,808**	₱301,674	₱169,745
Investment securities at amortized cost	**450,821**	281,779	391,861
	₱799,629	₱583,453	₱561,606

Trading and securities gain (loss) of the Group and of the Parent Company consists of:

	2016	2015	2014
Financial assets at FVTPL	**₱721,035**	(₱62,397)	₱497,352
US Treasury Futures	**12,379**	334	–
Interest rate swaps (Note 5)	**1,085**	(35,027)	2,173
	₱734,499	(₱97,090)	₱499,525

9. Loans and Receivables

Loans and receivables consist of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Receivables from customers:				
Corporate lending	**₱62,799,904**	₱64,611,066	**₱62,799,904**	₱64,611,066
Consumer lending	**133,191,105**	88,921,466	**120,703,579**	81,388,683
	195,991,009	153,532,532	**183,503,483**	145,999,749
Unamortized premium	**5,806,666**	3,638,482	**6,309,270**	3,856,744
	201,797,675	157,171,014	**189,812,753**	149,856,493
Unquoted debt securities:				
Government securities	**45,954**	42,553	**45,954**	42,553
Private bonds	**359,402**	364,292	**349,402**	353,975
	405,356	406,845	**395,356**	396,528
Other receivables:				
Accrued interest receivable	**1,936,025**	1,482,532	**1,809,971**	1,426,646
Accounts receivable	**1,132,955**	908,412	**1,214,212**	1,985,414
Sales contracts receivable	**176,648**	205,841	**176,648**	205,841
	3,245,628	2,596,785	**3,200,831**	3,617,901
	205,448,659	160,174,644	**193,408,940**	153,870,922
Allowance for credit and impairment losses (Note 15)	**(6,572,971)**	(4,898,407)	**(6,314,427)**	(4,623,689)
	₱198,875,688	₱155,276,237	**₱187,094,513**	₱149,247,233

Credit card receivables under consumer lending amounted to ₱28.06 billion and ₱22.75 billion as of December 31, 2016 and 2015, respectively.

Receivables from customers consist of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Loans and discounts	**₱191,073,903**	₱149,142,434	**₱178,588,555**	₱141,609,651
Customers' liabilities under letters of credit/trust receipts	**4,114,734**	3,598,793	**4,114,734**	3,598,793
Bills purchased	**802,372**	791,305	**800,194**	791,305
	₱195,991,009	₱153,532,532	**₱183,503,483**	₱145,999,749

In 2016, the Parent Company entered into a sale of receivables agreement with EWRB, whereby the Parent Company will sell to EWRB, on a without recourse basis, certain employee loans of the Parent Company. In 2016, the total employee loans sold by the Parent Company amounted to ₱398.63 million. The selling price of the employee loans approximates the fair value at the date of sale. As of December 31, 2016, outstanding employee loans purchased from the Parent Company, included in Loans and discounts of EWRB, amounted to ₱276.50 million. In connection with the sale of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby EWRB agreed to pay service fees equivalent to 0.37% of the loan amounts collected by the Parent Company on behalf of EWRB. The service fees received (included under Service charges, fees and commission income in the statements of income) by the Parent Company amounted to ₱0.48 million in 2016 (see Note 27).

In 2013, the Parent Company entered into a purchase of receivables agreement with EWRB, whereby the Parent Company will purchase, on a without recourse basis, certain salary loans of EWRB. In 2016 and 2015, the total salary loans purchased by the Parent Company amounted to ₱22.74 billion and ₱12.93 billion, respectively. The Parent Company's acquisition cost of the salary loans approximate the fair value at the acquisition date. As of December 31, 2016 and 2015, outstanding salary loans purchased from EWRB, included in Loans and discounts of the Parent Company, amounted to ₱17.44 billion and ₱8.34 billion, respectively. In connection with the purchase of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby the Parent Company agreed to pay service fees equivalent to 0.37% of the loan amounts collected by EWRB on behalf of the Parent Company. The service fees paid (included under Miscellaneous expense in the statements of income) by the Parent Company to EWRB amounted to ₱57.46 million, ₱30.57 million and ₱16.48 million in 2016, 2015 and 2014, respectively (see Note 27).

The Parent Company has a memorandum of understanding with Filinvest Land, Inc. (FLI), an entity under common control of FDC, whereby the Parent Company will purchase, on a without recourse basis, installment contracts receivable from FLI. On various dates in 2013 and 2012, several deeds of assignment were executed wherein FLI sold, assigned and transferred without recourse to the Parent Company all the rights, titles and interest in various loan accounts and the related mortgages. In 2013 and 2012, the total receivables purchased by the Parent Company without recourse under the terms of the foregoing assignment agreement amounted to ₱0.27 billion and ₱1.81 billion, respectively. Outstanding receivables purchased included in Loans and discounts amounted to ₱0.37 billion and ₱0.52 billion as of December 31, 2016 and 2015, respectively. The Parent Company's acqusition cost of the installment contracts receivable approximate fair value at the acquisition date. The Parent Company and FLI also entered into an account servicing and collection agreement where the Parent Company would pay service fees equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company related to its purchase of installment contracts receivable. The total service fees paid by the Parent Company to FLI amounted to ₱1.52 million, ₱1.95 million and ₱5.43 million in 2016, 2015 and 2014, respectively (see Note 27).

A reconciliation of the allowance for impairment and credit losses per class of loans and receivables for the Group and the Parent Company as of December 31, 2016 follows:

	Consolidated			
	2016			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,429,185	₱2,736,128	₱733,094	₱4,898,407
Provision for impairment and credit losses (Note 15)	149,053	4,996,457	99,135	5,244,645
Write-off and others (Note 15)	(209,653)	(3,279,573)	(80,855)	(3,570,081)
At December 31	₱1,368,585	₱4,453,012	₱751,374	₱6,572,971
Specific impairment	₱588,720	₱–	₱68,755	₱657,475
Collective impairment	779,865	4,453,012	682,619	5,915,496
	₱1,368,585	₱4,453,012	₱751,374	₱6,572,971
Gross amount of individually impaired loans	₱822,329	₱–	₱91,185	₱913,514

	Parent Company			
	2016			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,429,185	₱2,463,094	₱731,410	₱4,623,689
Provision for impairment and credit losses (Note 15)	149,053	4,982,125	81,063	5,212,241
Write-off and others (Note 15)	(209,653)	(3,230,995)	(80,855)	(3,521,503)
At December 31	₱1,368,585	₱4,214,224	₱731,618	₱6,314,427
Specific impairment	₱588,720	₱–	₱68,755	₱657,475
Collective impairment	779,865	4,214,224	662,863	5,656,952
	₱1,368,585	₱4,214,224	₱731,618	₱6,314,427
Gross amount of individually impaired loans	₱822,329	₱–	₱91,185	₱913,514

A reconciliation of the allowance for the impairment and credit losses per class of loans and receivables for the Group and the Parent Company as of December 31, 2015 follows:

	Consolidated			
	2015			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,324,547	₱1,802,591	₱845,383	₱3,972,521
Provision for impairment and credit losses (Note 15)	142,279	3,493,515	88,977	3,724,771
Write-off and others (Note 15)	(37,641)	(2,559,978)	(201,266)	(2,798,885)
At December 31	₱1,429,185	₱2,736,128	₱733,094	₱4,898,407
Specific impairment	₱742,432	₱–	₱66,084	₱808,516
Collective impairment	686,753	2,736,128	667,010	4,089,891
	₱1,429,185	₱2,736,128	₱733,094	₱4,898,407
Gross amount of individually impaired loans	₱893,047	₱–	₱95,757	₱988,804

	Parent Company			
	2015			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,324,547	₱1,559,976	₱843,699	₱3,728,222
Provision for impairment and credit losses (Note 15)	142,279	3,463,096	88,977	3,694,352
Write-off and others (Note 15)	(37,641)	(2,559,978)	(201,266)	(2,798,885)
At December 31	₱1,429,185	₱2,463,094	₱731,410	₱4,623,689
Specific impairment	₱742,432	₱–	₱66,084	₱808,516
Collective impairment	686,753	2,463,094	665,326	3,815,173
	₱1,429,185	₱2,463,094	₱731,410	₱4,623,689
Gross amount of individually impaired loans	₱893,047	₱–	₱95,757	₱988,804

The Parent Company took possession of various properties previously held as collateral with an estimated value of ₱1.89 billion, ₱967.97 million, and ₱487.60 million in 2016, 2015, and 2014, respectively (see Notes 12 and 14).

The following is a reconciliation of the individual and collective allowances for impairment and credit losses on loans and receivables of the Group and of the Parent Company:

	Consolidated					
	2016			2015		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱808,516	₱4,089,891	₱4,898,407	₱730,514	₱3,242,007	₱3,972,521
Provision for impairment and credit losses	58,612	5,186,033	5,244,645	115,643	3,609,128	3,724,771
Write-off and others	(209,653)	(3,360,428)	(3,570,081)	(37,641)	(2,761,244)	(2,798,885)
At December 31	₱657,475	₱5,915,496	₱6,572,971	₱808,516	₱4,089,891	₱4,898,407

	Parent Company					
	2016			2015		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱808,516	₱3,815,173	₱4,623,689	₱730,514	₱2,997,708	₱3,728,222
Provision for impairment and credit losses	58,612	5,153,629	5,212,241	115,643	3,578,709	3,694,352
Write-off and others	(209,653)	(3,311,850)	(3,521,503)	(37,641)	(2,761,244)	(2,798,885)
At December 31	₱657,475	₱5,656,952	₱6,314,427	₱808,516	₱3,815,173	₱4,623,689

Interest income on loans and receivables consist of:

	Consolidated			Parent Company		
	2016	2015	2014	2016	2015	2014
Receivables from customers	₱17,362,155	₱13,784,421	₱11,019,641	₱16,067,175	₱12,947,424	₱10,520,104
Unquoted debt securities	7,572	128,478	6,403	7,572	128,478	6,402
Interest accrued on impaired loans	7,630	7,286	24,218	7,630	7,286	24,218
	₱17,377,357	₱13,920,185	₱11,050,262	₱16,082,377	₱13,083,188	₱10,550,724

BSP Reporting

Of the total receivables from customers of the Parent Company as of December 31, 2016, 2015 and 2014, 19.00%, 21.00%, and 33.43%, respectively, are subject to periodic interest repricing. The remaining peso receivables from customers earn annual fixed interest rates ranging from 0.00% to 52.16 %, 0.50% to 52.16 %, and 1.13% to 23.68% in 2016, 2015 and 2014, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 0.90% to 10.00%, 1.40% to 7.56%, and 3.08% to 7.56% in 2016, 2015 and 2014, respectively.

The details of the secured and unsecured receivables from customers of the Group and of the Parent Company follow:

	Consolidated				Parent Company			
	2016		2015		2016		2015	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Loans secured by:								
Chattel	₱59,524,358	29.50	₱36,921,286	23.49	₱59,524,358	31.36	₱36,921,286	24.64
Real estate	27,609,755	13.68	19,111,824	12.16	27,517,546	14.50	19,008,128	12.68
Hold-out on deposit	5,623,055	2.79	5,623,055	3.58	5,621,850	2.96	5,621,850	3.75
Others	8,172,074	4.05	2,869,628	1.83	7,895,478	4.16	3,001,867	2.00
	100,929,242	50.02	64,525,793	41.06	100,559,232	52.98	64,553,131	43.07
Unsecured	100,868,433	49.98	92,645,221	58.94	89,253,521	47.02	85,303,362	56.93
	₱201,797,675	100.00	₱157,171,014	100.00	₱189,812,753	100.00	₱149,856,493	100.00

Information on the concentration of credit as to industry follows (in millions):

	Consolidated				Parent Company			
	2016		2015		2016		2015	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Personal consumption	₱120,870	59.90	₱72,552	46.16	₱109,010	57.43	₱72,552	48.41
Wholesale and retail trade	18,105	8.97	15,219	9.68	18,086	9.53	15,199	10.14
Real estate, renting and business activity	17,769	8.81	18,746	11.93	17,769	9.36	18,728	12.50
Financial intermediaries	8,472	4.20	9,988	6.35	8,472	4.46	9,918	6.62
Manufacturing	6,065	3.01	5,291	3.37	6,053	3.19	5,286	3.53
Agriculture, fisheries and forestry	2,018	1.00	1,690	1.08	1,956	1.03	1,566	1.05
Transportation, storage and communications	1,687	0.84	1,157	0.74	1,687	0.89	1,156	0.77
Others	26,812	13.27	32,528	20.69	26,780	14.11	25,451	16.98
	₱201,798	100.00	₱157,171	100.00	₱189,813	100.00	₱149,856	100.00

BSP Circular No. 351 allows banks to exclude from nonperforming classification receivables 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 and that such receivables shall be deducted from the total receivable portfolio for purposes of computing NPLs. Subsequently, the BSP issued BSP Circular No. 772, which requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As of December 31, 2016 and 2015, NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Gross NPLs	₱8,484,054	₱7,363,663	₱8,227,387	₱7,131,527
Deductions as required by the BSP	(3,940,221)	(2,728,927)	(3,880,221)	(2,728,927)
	₱4,543,833	₱4,634,736	₱4,347,166	₱4,402,600

As of December 31, 2016 and 2015, secured and unsecured NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Secured	₱4,088,420	₱3,142,388	₱4,007,836	₱3,050,180
Unsecured	4,395,634	4,221,275	4,219,551	4,081,347
	₱8,484,054	₱7,363,663	₱8,227,387	₱7,131,527

10. Investments in Subsidiaries and Joint Venture

The movements in the investments in subsidiaries of the Parent Company and investment in a joint venture of the Group and the Parent Company follow:

	Investment in Subsidiaries		Investment in a Joint Venture	
	2016	2015	2016	2015
Acquisition cost	₱681,232	₱551,000	₱1,005,000	₱500,000
Accumulated share in net income (loss)				
Balance at beginning of year	817,912	425,337	(28,713)	–
Share in net income (loss)	775,405	392,575	(356,954)	(28,713)
Balance at end of year	1,593,317	817,912	(385,667)	(28,713)
Accumulated share in other comprehensive income				
Balance at beginning of year	(291)	(156)	–	–
Share in remeasurement gain (loss) of retirement liability	1,315	(135)	–	–
Balance at end of year	1,024	(291)	–	–
	₱2,275,573	₱1,368,621	₱619,333	₱471,287

Investments in Subsidiaries

EWRB
The Parent Company's investment in EWRB amounted to ₱521.00 million as of December 31, 2016 and 2015. The principal place of business of EWRB is at East West Bank Building, J.P. Laurel Avenue corner Inigo Street, Bajada, Davao City.

EWIB
In 2015, the BSP approved the Parent Company's initial equity investment in EWIB of ₱30.00 million. On July 26, 2015, EWIB was registered with the SEC to operate as an insurance brokerage. In September 2015, EWIB received its license from the Insurance Commission. The principal place of business of EWIB is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

EWLFC
In 2016, the BSP approved and confirmed the initial equity investment in EWLFC of ₱100.00 million. It was registered with the SEC in October 2016 with secondary license to operate as a financing company in accordance with the Financing Company Act of 1998 and its implementing rules and regulations. The principal place of business of EWLFC is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

PSPI
In 2016, the Parent Company acquired 100.00% voting shares of PSPI as part of the asset and share transfer agreement for a consideration amounting to ₱19.93 million (see Note 7). PSPI was registered with the SEC in 2007 primarily to engage in providing sales and marketing services. The principal place of business is at 10th Floor, Eton Cyberpod Centris Building, EDSA cor. Quezon Avenue, Quezon City.

ASIA
In 2016, the Parent Company acquired 100.00% voting shares of ASIA as part of the asset and share transfer agreement for a consideration amounting to ₱10.30 million (see Note 7). ASIA was registered with the SEC in 2012 primarily to engage in general insurance agency business. The principal place of business is at 5th Floor, 6788 Sky Plaza Building, Ayala Avenue, Makati City.

Investment in a Joint Venture
On May 28, 2015, the Parent Company and Ageas entered into a joint venture agreement to form EW Ageas Life. EW Ageas Life, which shall primarily engage in the life insurance business, will be incorporated with a capitalization of ₱2.01 billion and with ultimate ownership interest of the Parent Company of 50% less 1 share. The Parent Company's initial investment amounted to ₱500.00 million. The joint venture agreement provided certain conditions that should be satisfied for the consummation of the agreement, which include among others, obtaining all the required regulatory approvals. In October 2015, the SEC approved the resignation of EW Ageas Life. The registered office address of EW Ageas Life is at One World Place, 32nd Street, Bonifacio Global City, Taguig City.

EW Ageas Life and the Parent Company entered into a twenty-year exclusive distribution agreement in November 2015. Under the distribution agreement, EW Ageas Life will have exclusive access to the branch network of the Parent Company for the distribution of its insurance products (the exclusive bancassurance access). As of December 31, 2015, EW Ageas Life has not yet started its operations, pending certain required regulatory approvals.

In 2016, upon obtaining all the required regulatory approvals from the Insurance Commission and the BSP, the establishment of EW Ageas Life was consummated and the Parent Company received a consideration from Ageas. The consideration attributable to the exclusive bancassurance access was deferred and will be recognized as income over the life of the distribution agreement (see Note 20). The consideration attributed to the investment transaction increased the Parent Company's investment in EW Ageas Life by ₱505.00 million and resulted in a gain on capital transaction of ₱1.005 billion.

There were no dividends received from EW Ageas Life as of December 31, 2016. The joint venture had no contingent liabilities or capital commitments as of December 31, 2016.

11. Property and Equipment

The composition of and movements in the Group's property and equipment follow:

	2016				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
As of January 1	₱59,988	₱1,058,652	₱1,915,915	₱3,158,407	₱6,192,962
Additions*	–	9,372	329,026	205,236	543,634
Disposals	–	–	(46,855)	–	(46,855)
As of December 31	59,988	1,068,024	2,198,086	3,363,643	6,689,741
Accumulated Depreciation and Amortization					
As of January 1	–	127,398	1,337,837	1,204,558	2,669,793
Depreciation and amortization	–	30,614	300,399	341,425	672,438
Disposals	–	–	(44,336)	–	(44,336)
As of December 31	–	158,012	1,593,900	1,545,983	3,297,895
Net Book Value	₱59,988	₱910,012	₱604,186	₱1,817,660	₱3,391,846

**inclusive of additions acquired from business combination (see Note 7)*

	2015				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱59,988	₱1,031,821	₱1,661,331	₱2,858,543	₱5,611,683
Additions	–	26,831	304,434	299,864	631,129
Disposals	–	–	(49,850)	–	(49,850)
As of December 31	59,988	1,058,652	1,915,915	3,158,407	6,192,962
Accumulated Depreciation and Amortization					
As of January 1	–	97,937	1,081,858	918,784	2,098,579
Depreciation and amortization	–	29,461	304,337	285,774	619,572
Disposals	–	–	(48,358)	–	(48,358)
As of December 31	–	127,398	1,337,837	1,204,558	2,669,793
Net Book Value	₱59,988	₱931,254	₱578,078	₱1,953,849	₱3,523,169

The composition of and movements in the Parent Company's property and equipment follow:

	2016				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
As of January 1	₱38,651	₱999,222	₱1,789,758	₱3,054,170	₱5,881,801
Additions*	–	6,452	237,954	149,110	393,516
Disposals	–	–	(32,290)	–	(32,290)
As of December 31	38,651	1,005,674	1,995,422	3,203,280	6,243,027
Accumulated Depreciation and Amortization					
As of January 1	–	121,781	1,334,132	1,214,513	2,670,426
Depreciation and amortization	–	27,154	244,699	315,257	587,110
Disposals	–	–	(31,703)	–	(31,703)
As of December 31	–	148,935	1,547,128	1,529,770	3,225,833
Net Book Value	₱38,651	₱856,739	₱448,294	₱1,673,510	₱3,017,194

**inclusive of additions acquired from business combination (see Note 7)*

	2015				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱38,651	₱982,871	₱1,623,717	₱2,830,977	₱5,476,216
Additions	–	16,351	197,264	223,193	436,808
Disposals	–	–	(31,223)	–	(31,223)
As of December 31	38,651	999,222	1,789,758	3,054,170	5,881,801
Accumulated Depreciation and Amortization					
As of January 1	–	95,289	1,090,428	939,057	2,124,774
Depreciation and amortization	–	26,492	273,649	275,456	575,597
Disposals	–	–	(29,945)	–	(29,945)
As of December 31	–	121,781	1,334,132	1,214,513	2,670,426
Net Book Value	₱38,651	₱877,441	₱455,626	₱1,839,657	₱3,211,375

The gain on sale recognized by the Group for the disposal of certain property and equipment amounted to ₱3.59 million, ₱5.93 million and ₱265.82 million in 2016, 2015 and 2014, respectively. The gain on sale recognized by the Parent Company for the disposal of certain property and equipment amounted to ₱2.53 million, ₱0.90 million, and ₱265.82 million in 2016, 2015, and 2014 respectively.

In 2014, the Parent Company sold a parcel of land previously intended for an office site with a carrying value of ₱169.13 million to Filinvest Alabang, Inc. (FAI), an entity under common control of FDC, that resulted in a gain amounting to ₱264.13 million. Under the terms of the sale, the selling price of ₱433.26 million is payable annually for five (5) years until 2019 with a fixed interest rate of 6.00% per annum. As of December 31, 2016 and 2015, the accounts receivable (included under Loans and receivable in the statements of financial position) recognized by the Parent Company for this sale transaction amounted to ₱303.28 million and ₱368.27 million, respectively (see Note 27).

As of December 31, 2016 and 2015, the cost of fully depreciated property and equipment still in use by the Group amounted to ₱1.32 billion and ₱989.03 million, respectively.

As of December 31, 2016 and 2015, the cost of fully depreciated property and equipment still in use by the Parent Company amounted to ₱1.19 billion and ₱870.94 million, respectively.

12. **Investment Properties**

The composition of and movements in the Group's investment properties follow:

	2016		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱529,335	₱475,666	₱1,005,001
Additions*	68,568	115,534	184,102
Disposals	(57,375)	(138,578)	(195,953)
At December 31	540,528	452,622	993,150
Accumulated Depreciation and Amortization			
At January 1	–	257,597	257,597
Depreciation and amortization	–	39,989	39,989
Disposals	–	(91,605)	(91,605)
At December 31	–	205,981	205,981
Accumulated Impairment Losses (Note 15)			
At January 1	10,674	9,117	19,791
Provision during the year	74,398	1,633	76,031
Disposals	(5,345)	(2,975)	(8,320)
At December 31	79,727	7,775	87,502
Net Book Value	₱460,801	₱238,866	₱699,667

**inclusive of additions acquired from business combination (see Note 7).*

	2015		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱749,778	₱521,380	₱1,271,158
Additions	32,516	36,569	69,085
Disposals	(252,959)	(82,283)	(335,242)
At December 31	529,335	475,666	1,005,001
Accumulated Depreciation and Amortization			
At January 1	–	258,730	258,730
Depreciation and amortization	–	39,815	39,815
Disposals	–	(40,948)	(40,948)
At December 31	–	257,597	257,597
Accumulated Impairment Losses (Note 15)			
At January 1	85,259	14,482	99,741
Provision during the year	7,903	6,357	14,260
Disposals	(82,488)	(11,722)	(94,210)
At December 31	10,674	9,117	19,791
Net Book Value	₱518,661	₱208,952	₱727,613

The composition of and movements in the Parent Company's investment properties follow:

	2016		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱526,773	₱472,181	₱998,954
Additions*	68,568	115,534	184,102
Disposals	(57,375)	(138,578)	(195,953)
At December 31	537,966	449,137	987,103
Accumulated Depreciation and Amortization			
At January 1	–	252,247	252,247
Depreciation and amortization	–	39,989	39,989
Disposals	–	(91,605)	(91,605)
At December 31	–	200,631	200,631
Accumulated Impairment Losses (Note 15)			
At January 1	10,674	9,117	19,791
Provision during the year	74,398	1,633	76,031
Disposals	(5,345)	(2,975)	(8,320)
At December 31	79,727	7,775	87,502
Net Book Value	₱458,239	₱240,731	₱698,970

**inclusive of additions acquired from business combination (see Note 7)*

	2015		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱747,216	₱517,895	₱1,265,111
Additions	32,516	36,569	69,085
Disposals	(252,959)	(82,283)	(335,242)
At December 31	526,773	472,181	998,954
Accumulated Depreciation and Amortization			
At January 1	–	253,383	253,383
Depreciation and amortization	–	39,812	39,812
Disposals	–	(40,948)	(40,948)
At December 31	–	252,247	252,247
Accumulated Impairment Losses (Note 15)			
At January 1	85,259	14,482	99,741
Provision during the year	7,903	6,357	14,260
Disposals	(82,488)	(11,722)	(94,210)
At December 31	10,674	9,117	19,791
Net Book Value	₱516,099	₱210,817	₱726,916

The Group's and the Parent Company's investment properties consist entirely of real estate properties and land improvements acquired in settlement of loans and receivables.

The aggregate fair value of the investment properties of the Group and the Parent Company amounted to ₱1.19 billion and ₱1.18 billion as of December 31, 2016 and 2015, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2016 and 2015, the carrying values of foreclosed investment properties of the Group and of the Parent Company still subject to redemption period by the borrower amounted to ₱86.90 million and ₱60.46 million, respectively.

Gain on sale recognized by the Group and the Parent Company for the disposal of its foreclosed assets amounted to ₱25.17 million, ₱55.34 million, and ₱60.77 million in 2016, 2015 and 2014, respectively.

Direct operating expenses from investment properties not generating rent income amounted to ₱40.00 million, ₱44.01 million and ₱47.83 million for the Group and the Parent Company in 2016, 2015 and 2014, respectively.

13. **Goodwill and Other Intangible Assets**

As of December 31, 2016 and 2015, the intangible assets of the Group consist of:

	2016					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,316,728	₱2,167,600	₱154,626	₱40,433	₱1,633,295	₱5,312,682
Additions	2,424,689	–	–	–	250,348	2,675,037
As of December 31	3,741,417	2,167,600	154,626	40,433	1,883,643	7,987,719
Accumulated Amortization						
As of January 1	–	–	29,461	27,628	808,971	866,060
Amortization	–	–	4,311	4,043	166,897	175,251
As of December 31	–	–	33,772	31,671	975,868	1,041,311
Net Book Value	₱3,741,417	₱2,167,600	₱120,854	₱8,762	₱907,775	₱6,946,408

	2015					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,316,728	₱2,167,396	₱154,626	₱40,433	₱1,430,745	₱5,109,928
Additions	–	204	–	–	202,550	202,754
As of December 31	1,316,728	2,167,600	154,626	40,433	1,633,295	5,312,682
Accumulated Amortization						
As of January 1	–	–	25,150	23,585	636,420	685,155
Amortization	–	–	4,311	4,043	172,551	180,905
As of December 31	–	–	29,461	27,628	808,971	866,060
Net Book Value	₱1,316,728	₱2,167,600	₱125,165	₱12,805	₱824,324	₱4,446,622

As of December 31, 2016 and 2015, the intangible assets of the Parent Company consist of:

	2016					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,293,250	₱2,167,600	₱154,626	₱40,433	₱1,567,135	₱5,223,044
Additions	2,424,689	–	–	–	242,305	2,666,994
As of December 31	3,717,939	2,167,600	154,626	40,433	1,809,440	7,890,038
Accumulated Amortization						
As of January 1	–	–	29,461	27,628	781,219	838,308
Amortization	–	–	4,311	4,043	154,684	163,038
As of December 31	–	–	33,772	31,671	935,903	1,001,346
Net Book Value	₱3,717,939	₱2,167,600	₱120,854	₱8,762	₱873,537	₱6,888,692

	2015					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,293,250	₱2,167,396	₱154,626	₱40,433	₱1,364,144	₱5,019,849
Additions	–	204	–	–	202,991	203,195
As of December 31	1,293,250	2,167,600	154,626	40,433	1,567,135	5,223,044
Accumulated Amortization						
As of January 1	–	–	25,150	23,585	620,872	669,607
Amortization	–	–	4,311	4,043	160,347	168,701
As of December 31	–	–	29,461	27,628	781,219	838,308
Net Book Value	₱1,293,250	₱2,167,600	₱125,165	₱12,805	₱785,916	₱4,384,736

Goodwill

The acquisition of EWRB in 2012 resulted in goodwill amounting ₱23.48 million, which was allocated to the branch operations of EWRB. The acquisition of GBI in 2011 resulted in goodwill amounting to ₱374.00 million. The goodwill was allocated to branch operations of GBI. On October 31, 2013, GBI transferred certain assets and liabilities to EWRB. The assets and liabilities transferred include the branches where the goodwill from the acquisition of GBI had been allocated. The branches coming from GBI were combined with the branch operations of EWRB after the transfer. Consequently, the goodwill from the acquisition of EWRB and GBI amounting to ₱23.48 million and ₱374.00 million, respectively, are now allocated to the branch operations of EWRB, which is now considered as a single CGU for purposes of impairment testing.

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in goodwill amounting to ₱769.04 million, which has been allocated to the auto and credit cards lending unit acquired from the AIGPASB Group.

The business combination between the Parent Company and Ecology Savings Bank (ESBI) in 2003 resulted in goodwill amounting to ₱172.80 million, which has been allocated to various branches acquired from ESBI. As of December 31, 2016 and 2015, the carrying amount of goodwill, after impairment recognized in prior years, amounted to ₱150.21 million.

The business combination resulting from the Asset and Share Transfer Agreement with SCB in 2016 (see Note 7) resulted in a provisional goodwill of ₱2.42 billion.

Key assumptions used in value in use calculations

The recoverable amount of the CGUs have been determined based on value in use calculations using cash flow projections based on financial budgets approved by the management covering a five-year period. The VIU calculation for the CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to exrapolate cash flows beyond the budget period. Future cash flows were based on historical experience 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.

Discount rate and growth rate

The discount rate applied reflects the current market assessment of the risk specific to each CGU. In 2016, the discount rates applied to the cash flow projections are 12.34% for AIG and 10.94% for EWRB and ESBI. In 2015, the discount rates applied are 12.25% for AIG and 9.65% for EWRB and ESBI. The growth rate used to extrapolate cash flows beyond the five-year period is 5.00%.

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 units to exceed their recoverable amount.

Customer Relationship and Core Deposits

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in acquisition of customer relationship and core deposits amounting to ₱154.63 million and ₱40.43 million, respectively.

Branch Licenses

Branch licenses of the Group amounting to ₱2.17 billion as of December 31, 2016 represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by the Parent Company from the BSP amounting to ₱505.20 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013, 42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012, and 46 branch licenses acquired by the Parent Company from the acquisition of GBI amounting to ₱625.40 million in 2011.

Branch licenses of the Parent Company amounting to ₱2.17 billion as of December 31, 2016 represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by Parent Company from the BSP amounting to ₱505.20 million and 46 branch licenses merged to the Parent Company from GBI amounting to ₱625.40 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013, and 42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012.

Capitalized Software

Capitalized software pertains to computer software licenses and programs acquired by the Group and the Parent Company for its banking operations. Included in the 2016 and 2015 acquisitions are software licenses acquired by the Group for the upgrade of its core banking systems amounting to ₱12.85 million and ₱6.62 million, respectively.

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Other repossessed assets	**₱1,074,555**	₱577,214	**₱1,074,555**	₱577,214
Card acquisition costs	**248,796**	161,422	**248,796**	161,422
Security deposits	**231,711**	211,280	**231,711**	211,280
Prepaid expenses	**208,899**	156,677	**198,366**	151,882
Derivative assets (Note 5)	**167,665**	167,491	**167,665**	167,491
Returned cash and other cash items	**113,301**	127,021	**113,301**	127,021
Documentary stamps	**81,049**	7,732	**81,049**	7,732
Miscellaneous	**789,997**	798,808	**741,072**	777,235
	2,915,973	2,207,645	**2,856,515**	2,181,277
Allowance for impairment losses (Note 15)	**(441,891)**	(190,735)	**(441,891)**	(190,735)
	₱2,474,082	₱2,016,910	**₱2,414,624**	₱1,990,542

As of December 31, 2016 and 2015, miscellaneous assets of the Group and Parent Company include sundry debits and interoffice floats amounting to ₱213.86 million and ₱286.97 million, respectively.

The movements in the allowance for impairment losses on other assets of the Group and the Parent Company follow:

	2016	2015
As of January 1	**₱190,735**	₱85,623
Provision during the year	**371,547**	159,971
Reversal of allowance from disposals	**(114,033)**	(54,859)
Write-off and others	**(6,358)**	–
As of December 31	**₱441,891**	₱190,735

The movements in other repossessed assets of the Group and the Parent Company follow:

	2016	2015
Cost		
As of January 1	**₱664,333**	₱234,303
Additions	**1,707,027**	898,888
Disposals	**(1,142,515)**	(468,858)
As of December 31	**1,228,845**	664,333
Accumulated Depreciation		
As of January 1	**87,119**	29,757
Depreciation and amortization	**262,344**	117,080
Disposals	**(195,173)**	(59,718)
As of December 31	**154,290**	87,119
Net Book Value, gross of impairment	**1,074,555**	577,214
Accumulated Impairment Losses		
As of January 1	**21,378**	9,444
Provision during the year	**234,475**	66,793
Disposals	**(114,033)**	(54,859)
As of December 31	**141,820**	21,378
Net Book Value, net of impairment	**₱932,735**	₱555,836

In 2016 and 2015, gain recognized by the Group and the Parent Company from the disposal of its repossessed assets amounted to ₱27.36 million and ₱18.77 million, respectively. In 2014, loss on sale recognized by the Group and Parent Company amounted to ₱24.83 million and ₱25.70 million, respectively.

15. Allowance for Impairment and Credit Losses

Details of and changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balances at the beginning of year:				
Loans and receivables (Note 9)	**₱4,898,407**	₱3,972,521	**₱4,623,689**	₱3,728,222
Investment properties (Note 12)	**19,791**	99,741	**19,791**	99,741
Other assets (Note 14)	**190,735**	85,623	**190,735**	85,623
	₱5,108,933	4,157,885	**₱4,834,215**	3,913,586
Provisions charged to current operations (Notes 9, 12 and 14)	**5,692,223**	3,899,002	**5,659,819**	3,868,583
Write-off and others	**(3,576,439)**	(2,798,885)	**(3,527,861)**	(2,798,885)
Reversal of allowance on disposals of investment properties and other repossessed assets (Notes 12 and 14)	**(122,353)**	(149,069)	**(122,353)**	(149,069)
Balances at the end of year:				
Loans and receivables (Note 9)	**6,572,971**	4,898,407	**6,314,427**	4,623,689
Investment properties (Note 12)	**87,502**	19,791	**87,502**	19,791
Other assets (Note 14)	**441,891**	190,735	**441,891**	190,735
	₱7,102,364	₱5,108,933	**₱6,843,820**	₱4,834,215

16. **Deposit Liabilities**

BSP Circular No. 753, which took effect April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement effective on non-FCDU deposit liabilities to 18.00% and reserve requirement on long-term negotiable certificates of deposits to 3.00%. With the new regulations, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. On April 11, 2014, BSP Circular 830 took effect which increased the reserve requirements on non-FCDU deposit liabilities by 1-percentage-point to 19.00%. BSP Circular 832 further increased the reserve requirements of non-FCDU deposit liabilities to 20.00% starting on the reserve week of May 30, 2014. On the other hand, EWRB is required to maintain regular reserves equivalent to 5.00% against demand deposits and 3.00% against savings and time deposits.

As of December 31, 2016 and 2015, the Parent Company and EWRB are in compliance with such regulations.

As of December 31, 2016 and 2015, Due from BSP of the Parent Company amounting to ₱37.17 billion and ₱28.31 billion, respectively, were set aside as reserves for deposit liabilities, as reported to the BSP.

Of the total deposit liabilities of the Parent Company as of December 31, 2016, 2015 and 2014, about 52.00%, 44.60%, and 52.19%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.13% to 5.53% in 2016 and 0.50% to 6.25% in 2015 and 2014.

The Group's interest expense on deposit liabilities amounted to ₱2.46 billion, ₱1.84 billion and ₱1.33 billion in 2016, 2015, and 2014, respectively. The Parent Company's interest expense on deposit liabilities amounted to ₱2.28 billion in 2016, ₱1.74 billion in 2015 and ₱1.26 billion in 2014.

Long-term Negotiable Certificates of Deposits due 2018 (LTNCD Series 1)
In 2013 and 2012, the Parent Company issued 5.00% fixed coupon rate (average EIR of 4.37%) unsecured LTNCD maturing on May 18, 2018. The first tranche of the LTNCD Series 1 amounting to ₱1.53 billion was issued at a discount on November 23, 2012, and the second to seventh tranches aggregating to ₱3.12 billion were issued at a premium in February to May 2013. The net premium, net of debt issue costs, related to the issuance of the LTNCD Series 1 in 2013 and 2012 amounted to ₱107.91 million and ₱10.64 million, respectively.

Long-term Negotiable Certificates of Deposits due 2019 (LTNCD Series 2)
In 2013, the Parent Company issued 3.25% fixed coupon rate (average EIR of 3.48%) unsecured LTNCD maturing on June 9, 2019. The first to third tranches of the LTNCD Series 2 aggregating to ₱0.74 billion were issued in December 2013. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 2 in 2013 amounted to ₱8.42 million. The fourth and fifth tranches of the LTNCD Series 2 aggregating to ₱1.74 billion were issued in February and April 2014, respectively. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 2 in 2014 amounted to ₱85.05 million.

Long-term Negotiable Certificates of Deposits due 2020 (LTNCD Series 3)
In 2014, the Parent Company issued 4.50% fixed coupon rate (average EIR of 4.42%) unsecured LTNCD maturing on April 24, 2020. The first tranche of the LTNCD Series 3 amounting to ₱0.93 billion was issued in October 2014. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 3 in 2014 amounted to ₱4.63 million.

The movements in unamortized net discount as of December 31, 2016 and 2015 follow:

	2016	2015
Beginning balance	**₱24,626**	₱25,518
Amortization during the year	**(769)**	(892)
Ending balance	**₱23,857**	₱24,626

17. **Bills and Acceptances Payable**

This account consists of:

	2016	2015
Banks and other financial institutions	**₱2,086,820**	₱2,950,991
Outstanding acceptances	**107,775**	122,532
	₱2,194,595	₱3,073,523

As of December 31, 2016 and 2015, investments in government securities of the Parent Company (included in Investment securities at amortized cost in the statements of financial position) with face value of ₱435.45 million and ₱2.56 billion, respectively, and fair value of ₱437.23 million and ₱2.69 billion, respectively, were pledged with other banks as collateral for borrowings amounting to ₱373.22 million and ₱2.20 billion, respectively.

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 0.01% to 1.65% in 2016, 0.55% to 1.20% in 2015, and 0.50% to 3.22% in 2014.

The Group's and Parent Company's interest expense on bills and acceptances payable amounted to ₱55.88 million in 2016, ₱17.26 million in 2015 and ₱39.90 million in 2014.

18. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Accrued other expenses	**₱1,307,214**	₱768,098	**₱1,254,109**	₱733,823
Accrued interest payable	**393,517**	398,104	**382,887**	392,914
Accrued taxes	**166,198**	150,961	**113,226**	100,041
	₱1,866,929	₱1,317,163	**₱1,750,222**	₱1,226,778

Accrued other expenses pertain to accruals of various operating expenses such as rent, utilities, management and professional fees, employee bonus and other expenses.

19. **Subordinated Debt**

The Group's and the Parent Company's subordinated debt consists of (in millions):

		Carrying Value	
	Face Value	2016	2015
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000	**₱4,969**	₱4,967
Lower Tier 2 unsecured subordinated notes due 2021	1,500	**–**	1,500
	₱6,500	**₱4,969**	₱6,467

Lower Tier 2 unsecured subordinated notes due 2025
On July 4, 2014, the Parent Company issued 5.50% coupon rate Lower Tier 2 unsecured subordinated notes (the 2025 Notes) with par value of ₱5.00 billion, maturing on January 4, 2025, but callable on January 4, 2020. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 4, 2025.

From and including the issue date to, but excluding the optional redemption date of January 4, 2020, the 2025 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on January 4, April 4, July 4, and October 4 of each year, which commenced on October 4, 2014. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year PDST-R2 at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year PDST R2 at the pricing date of the initial tranche).

The 2025 Notes are redeemable at the option of the Parent Company, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a. the Parent Company has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2025 Notes
b. the 2025 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Parent Company, or
c. the Parent Company demonstrates that its capital position is above the minimum capital requirements after redemption is exercised
d. the Parent Company is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers)
e. the Parent Company is solvent at the time of redemption of the 2025 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2025 Notes have a loss absorption feature which means that the 2025 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, the Parent Company shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event the Parent Company does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption measure is subject to the following conditions:

a. the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of the Parent Company (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down")
b. the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event
c. the Parent Company giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the 2025 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Lower Tier 2 unsecured subordinated notes due 2021
On July 2, 2010, the Parent Company issued 7.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2021 Notes) with par value of ₱1.50 billion, maturing on January 2, 2021 but callable on January 2, 2016, and with step-up in interest if not called.

Unless the 2021 Notes are previously redeemed, the 2021 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 2, 2021.

From and including the issue date to, but excluding the optional redemption date of January 2, 2016, the 2021 Notes bear interest at the rate of 7.50% per annum and shall be payable semi-annually in arrears on January 2 and July 2 of each year, commencing on January 2, 2011. Unless the 2021 Notes are previously redeemed, the interest rate from and including January 2, 2016 to, but excluding January 2, 2021, will be reset and such Step-Up interest shall be payable semi-annually in arrears on January 2 and July 2 of each year, commencing on July 2, 2016.

The Step-Up interest rate shall be computed as the higher of:

1. 80.00% of the 5-year on-the-run Philippine Treasury benchmark bid yield (PDST-F) on optional redemption date plus the Step-Up spread of 3.44% per annum. The Step-Up spread is defined as follows:

   Step-Up spread = 150.00% of the difference between the Interest Rate and 80.00% of the 5-year PDST-F on the Pricing Date, preceding the initial Issue Date, equivalent to 3.44% per annum.

2. 150.00% of the difference between the interest rate and the 5-year PDST-F on the pricing date preceding the initial issue date plus the 5-year PDST-F on the optional redemption date.

On January 4, 2016, the Parent Company exercised its call option on the ₱1.50 billion 2021 Notes. The redemption was approved by the Parent Company's BOD on August 27, 2015 and by the BSP on October 8, 2015. The call option amount was the sum of the face value of the Notes, plus accrued interest amounting to ₱1.56 billion, covering the 11th interest period from July 2, 2015 to January 3, 2016 at the interest rate of 7.50%, as of but excluding the call option date.

The Group's and Parent Company's interest expense on subordinated debt amounted to ₱278.11 million, ₱390.70 million, and ₱258.71 million in 2016, 2015, and 2014, respectively.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Accounts payable	**₱3,331,324**	₱2,574,717	**₱3,136,116**	₱2,433,803
Deferred revenue	**1,421,056**	519,613	**1,421,056**	519,613
Bills purchased-contra	**652,796**	688,852	**652,796**	688,852
Derivative liabilities (Note 5)	**194,164**	183,755	**194,164**	183,755
Withholding tax payable	**101,438**	110,628	**92,099**	106,019
Net retirement obligation (Note 25)	**89,065**	48,784	**81,952**	46,626
Retention payable	**74,605**	120,812	**74,605**	120,812
Payment orders payable	**37,255**	6,207	**37,255**	6,207
Marginal deposits and letters of credit	**–**	4,737	**–**	4,737
Miscellaneous	**785,282**	490,170	**780,375**	489,408
	₱6,686,985	₱4,748,275	**₱6,470,418**	₱4,599,832

Deferred revenue of the Group and the Parent Company includes deferred credit card loyalty points, membership fees and dues as well as the deferred exclusive bancassurance access fee (see Note 10).

21. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of financial position date:

	Consolidated					
	2016			2015		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	**₱6,623,761**	**₱–**	**₱6,623,761**	₱5,899,131	₱–	₱5,899,131
Due from BSP	**39,343,143**	**–**	**39,343,143**	30,908,680	–	30,908,680
Due from other banks	**6,970,645**	**–**	**6,970,645**	5,376,926	–	5,376,926
IBLR	**7,502,748**	**–**	**7,502,748**	7,722,546	–	7,722,546
Financial assets at FVTPL (Note 8)	**5,267,750**	**–**	**5,267,750**	10,540,806	–	10,540,806
Investments at FVTOCI (Note 8)	**–**	**500**	**500**	–	6,255	6,255
Investment securities at amortized cost (Note 8)	**–**	**11,129,509**	**11,129,509**	–	4,617,898	4,617,898
Loans and receivables - gross (Note 9)	**107,958,091**	**91,683,902**	**199,641,993**	58,197,712	98,338,450	156,536,162
Other assets (Note 14)	**296,497**	**231,711**	**528,208**	299,441	211,279	510,720
	173,962,635	**103,045,622**	**277,008,257**	118,945,242	103,173,882	222,119,124
Nonfinancial assets:						
Investment in a joint venture (Note 10)	**–**	**619,333**	**619,333**	–	471,287	471,287
Property and equipment (Note 11)	**–**	**3,391,846**	**3,391,846**	–	3,523,169	3,523,169
Investment properties (Note 12)	**–**	**699,667**	**699,667**	–	727,613	727,613
Deferred tax assets (Note 24)	**–**	**1,972,465**	**1,972,465**	–	1,322,271	1,322,271
Goodwill and other intangible assets (Note 13)	**–**	**6,946,408**	**6,946,408**	–	4,446,622	4,446,622
Other assets (Note 14)	**726,585**	**1,219,289**	**1,945,874**	823,351	682,839	1,506,190
	726,585	**14,849,008**	**15,575,593**	823,351	11,173,801	11,997,152
	174,689,220	**117,894,630**	**292,583,850**	119,768,593	114,347,683	234,116,276
Allowances for impairment and credit losses on loans and receivables (Note 9)	**–**	**(6,572,971)**	**(6,572,971)**	–	(4,898,407)	(4,898,407)
Unearned premium (Note 9)	**–**	**5,806,666**	**5,806,666**	–	3,638,482	3,638,482
	₱174,689,220	**₱117,128,325**	**₱291,817,545**	₱119,768,593	₱113,087,758	₱232,856,351
Financial liabilities:						
Deposit liabilities	**₱149,513,874**	**₱90,707,645**	**₱240,221,519**	₱156,332,129	₱27,811,867	₱184,143,996
Bills and acceptances payable (Note 17)	**2,194,595**	**–**	**2,194,595**	3,073,523	–	3,073,523
Cashiers' checks and demand drafts payable	**1,059,178**	**–**	**1,059,178**	1,217,741	–	1,217,741
Subordinated debt (Note 19)	**–**	**4,969,460**	**4,969,460**	–	6,466,516	6,466,516
Accrued interest, taxes and other expenses (Note 18)	**1,700,731**	**–**	**1,700,731**	1,166,202	–	1,166,202
Other liabilities (Note 20)	**4,410,944**	**90,732**	**4,501,676**	2,661,743	136,940	2,798,683
	158,879,322	**95,767,837**	**254,647,159**	164,451,338	34,415,323	198,866,661
Nonfinancial liabilities:						
Income tax payable	**369,508**	**–**	**369,508**	486,390	–	486,390
Accrued interest, taxes and other expenses (Note 18)	**166,198**	**–**	**166,198**	150,961	–	150,961
Other liabilities (Note 20)	**1,619,253**	**566,056**	**2,185,309**	1,429,979	519,613	1,949,592
	2,154,959	**566,056**	**2,721,015**	2,067,330	519,613	2,586,943
	₱161,034,281	**₱96,333,893**	**₱257,368,174**	₱166,518,668	₱34,934,936	₱201,453,604

	Parent Company					
	2016			2015		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	**₱6,511,420**	**–**	**₱6,511,420**	₱5,829,104	₱–	₱5,829,104
Due from BSP	**39,019,501**	**–**	**39,019,501**	30,725,169	–	30,725,169
Due from other banks	**6,940,924**	**–**	**6,940,924**	5,310,299	–	5,310,299
IBLR	**7,502,748**	**–**	**7,502,748**	7,722,546	–	7,722,546
Financial assets at FVTPL (Note 8)	**5,267,750**	**–**	**5,267,750**	10,540,806	–	10,540,806
Investments at FVTOCI (Note 8)	**–**	**500**	**500**	–	6,255	6,255
Investment securities at amortized cost (Note 8)	**–**	**11,129,509**	**11,129,509**	–	4,617,898	4,617,898
Loans and receivables - gross (Note 9)	**100,771,389**	**86,328,281**	**187,099,670**	54,549,649	95,464,529	150,014,178
Other assets (Note 14)	**296,079**	**231,711**	**527,790**	298,820	211,279	510,099
	166,309,811	**97,690,001**	**263,999,812**	114,976,393	100,299,961	215,276,354
Nonfinancial assets:						
Investment in subsidiaries (Note 10)	**–**	**2,275,573**	**2,275,573**	–	1,368,621	1,368,621
Investment in a joint venture (Note 10)	**–**	**619,333**	**619,333**	–	471,287	471,287
Property and equipment (Note 11)	**–**	**3,017,194**	**3,017,194**	–	3,211,375	3,211,375
Investment properties (Note 12)	**–**	**698,970**	**698,970**	–	726,916	726,916
Deferred tax assets (Note 24)	**–**	**1,896,899**	**1,896,899**	–	1,295,956	1,295,956
Goodwill and other intangible assets (Note 13)	**–**	**6,888,692**	**6,888,692**	–	4,384,736	4,384,736
Other assets (Note 14)	**677,852**	**1,208,982**	**1,886,834**	797,611	682,832	1,480,443
	677,852	**16,605,643**	**17,283,495**	797,611	12,141,723	12,939,334
	166,987,663	**114,295,644**	**281,283,307**	115,774,004	112,441,684	228,215,688
Allowances for impairment and credit losses on loans and receivables (Note 9)	**–**	**(6,314,427)**	**(6,314,427)**	–	(4,623,689)	(4,623,689)
Unamortized premium (Note 9)	**–**	**6,309,270**	**6,309,270**	–	3,856,744	3,856,744
	₱166,987,663	**₱114,290,487**	**₱281,278,150**	₱115,774,004	₱111,674,739	₱227,448,743
Financial liabilities:						
Deposit liabilities	**₱139,417,090**	**₱90,707,645**	**₱230,124,735**	₱151,253,687	₱27,811,867	₱179,065,554
Bills and acceptances payable (Note 17)	**2,194,595**	**–**	**2,194,595**	3,073,523	–	3,073,523
Cashiers' checks and demand drafts payable	**1,059,178**	**–**	**1,059,178**	1,217,741	–	1,217,741
Subordinated debt (Note 19)	**–**	**4,969,460**	**4,969,460**	–	6,466,516	6,466,516
Accrued interest, taxes and other expenses (Note 18)	**1,636,996**	**–**	**1,636,996**	1,126,737	–	1,126,737
Other liabilities (Note 20)	**4,199,261**	**90,732**	**4,289,993**	2,514,622	136,940	2,651,562
	148,507,120	**95,767,837**	**244,274,957**	159,186,310	34,415,323	193,601,633
Nonfinancial liabilities:						
Income tax payable	**260,171**	**–**	**260,171**	396,052	–	396,052
Accrued interest, taxes and other expenses (Note 18)	**113,226**	**–**	**113,226**	100,041	–	100,041
Other liabilities (Note 20)	**1,614,369**	**566,056**	**2,180,425**	1,428,657	519,613	1,948,270
	1,987,766	**566,056**	**2,553,822**	1,924,750	519,613	2,444,363
	₱150,494,886	**₱96,333,893**	**₱246,828,779**	₱161,111,060	₱34,934,936	₱196,045,996

22. **Equity**

Capital Management

The Parent Company actively manages its capital to comply with regulatory requirements, enable growth targets, withstand plausible stress events and be at par with the Parent Company's peers. The primary objective of the Parent Company's capital management is to ensure that it maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholders' value.

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 Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based Capital Adequacy Ratio (CAR) of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides 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 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital only until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Group should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Group's real estate exposures. These shall be complied with at all times.

The capital-to-risk assets ratio reported to the BSP as of December 31, 2016 and 2015 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
CET1 capital ratio	**10.39%**	12.41%	**10.12%**	12.15%
Tier 1 capital ratio	**10.39%**	12.41%	**10.12%**	12.15%
Total capital ratio	**13.28%**	15.59%	**13.15%**	15.45%

The composition of the qualifying capital is shown below.

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Qualifying capital:				
Tier 1 capital	**₱34,225**	₱31,035	**₱34,222**	₱30,297
CET1 capital	**34,225**	31,035	**34,222**	30,297
Less: Required Deductions	**9,615**	6,751	**11,697**	7,481
Net Tier 1 Capital	**24,610**	24,284	**22,525**	22,816
Tier 2 capital	**6,851**	6,232	**6,743**	6,201
Total qualifying capital	**₱31,461**	₱30,516	**₱29,268**	₱29,017

The capital requirements as of December 31, 2016 and 2015 are shown below:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Capital requirements:				
Credit risk	**₱20,450**	₱16,744	**₱19,211**	₱16,076
Market risk	**601**	583	**601**	583
Operational risk	**2,631**	2,242	**2,449**	2,117
Total capital requirements	**₱23,682**	₱19,569	**₱22,261**	₱18,776

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 comprises share capital, surplus (including current year profit), and other comprehensive income (cumulative foreign currency translation and net unrealized gains on financial assets at fair value through other comprehensive income). Required deductions include goodwill, intangible assets, investments in equity, deferred tax assets, defined benefit pension assets and unsecured credit accommodations to DOSRI and subsidiaries. Tier 2 capital comprise of unsecured subordinated debts and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the statement of financial position exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. 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%	COCI, 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 (SME) and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., 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

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets. The determination of compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

In 2016 and 2015, the Parent Company has complied with the required 10.00% capital adequacy ratio of the BSP.

The policies and processes guiding the determination of the sufficiency of capital of the Parent Company have been incorporated in the Parent Company's Internal Capital Adequacy Assessment Process (ICAAP) which supplements the BSP's risk-based capital adequacy framework under BSP Circular Nos. 538 and 639 to comply with the requirements of the BSP. While the Parent Company has added the ICAAP to its capital management policies and processes, there were no changes made on the objectives and policies for the years ended December 31, 2016 and 2015.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Capital Stock

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares			Amount		
	2016	2015	2014	**2016**	2015	2014
Authorized:						
Common stock - ₱10.00 par value	**1,500,000,000**	1,500,000,000	1,500,000,000			
Preferred stock - ₱10.00 par value	**500,000,000**	500,000,000	500,000,000			
Common stock issued and outstanding:						
Balance at the beginning of the year	**1,499,983,610**	1,128,409,610	1,128,409,610	**₱14,999,836**	₱11,284,096	₱11,284,096
Issuance of stock rights	**–**	371,574,000	–	**–**	3,715,740	–
Balance at year end	**1,499,983,610**	1,499,983,610	1,128,409,610	**₱14,999,836**	₱14,999,836	₱11,284,096

With the approvals by the PSE of the Parent Company's application for listing and by the SEC for the Registration Statement both on March 14, 2012, a total of 245,316,200 common shares, with ₱10.00 par value per share, representing 21.70% of outstanding capital stock, were offered and subscribed through an initial public offering at ₱18.50 per share on April 20 to 26, 2012. The common shares comprise of (a) 141,056,800 new shares issued by the Parent Company by way of a primary offer, and (b) 104,259,400 existing shares offered by FDC, the selling shareholder, pursuant to a secondary offer. Subsequently, on September 5, 2012, 36,715,300 shares under the over-allotment option were exercised at a price of ₱18.50 per share that brought the subscriptions to 25.00% of the outstanding capital stock. The Parent Company's common shares were listed and commenced trading in the PSE on May 7, 2012.

The total proceeds raised by the Parent Company from the sale of primary offer shares amounted to ₱2.61 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱2.39 billion.

On January 29, 2015, the BOD approved the common shares rights offering and subsequently, in March 2015, approved the application of the Parent Company to list up to 371,574,000 common shares with par value of ₱10.00 per share to cover its stock rights offering. The offer price was computed based on the volume-weighted average price of the Parent Company's common shares traded in the PSE for each of the 15 consecutive trading days immediately prior to (and excluding) the pricing date, subject to a discount rate of 12.80%. On May 8, 2015, a total of 371,574,000 common shares were listed at the PSE with ₱10.00 par value per share. The total proceeds raised by the Parent Company from the sale of the said shares amounted to ₱8.00 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱7.95 billion. The net proceeds were used to invest in securities allowed under BSP regulation and to fuel growth in loans.

The portion of the Parent Company's retained earnings pertaining to the accumulated earnings of the subsidiaries amounting to ₱1.59 billion and ₱817.91 million as of December 31, 2016 and 2015, respectively, are not available for dividend declaration until declared as dividends by the subsidiaries.

Dividend

The Board of Directors of the Parent Company, in its special meeting on April 15, 2016, approved the declaration of cash dividends amounting to ₱0.27 per share or ₱400.00 million to stockholders on record as of April 29, 2016. The dividends were paid on May 13, 2016.

23. Income and Expenses

Service charges, fees and commissions consist of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Credit Cards	**₱1,784,782**	₱1,857,903	₱1,790,379	**₱1,784,782**	₱1,857,903	₱1,790,379
Loans	**1,505,074**	831,458	1,021,233	**676,991**	387,457	393,108
Deposits	**655,709**	552,419	385,523	**594,101**	510,601	385,523
Remittances	**38,376**	28,704	7,144	**38,376**	28,704	7,144
Others	**117,400**	15,698	93,560	**94,864**	15,697	93,560
	₱4,101,341	₱3,286,182	₱3,297,839	**₱3,189,114**	₱2,800,362	₱2,669,714

Service charges include late payment charges, pre-termination fees on loans and service charges on deposit taking-related transactions.

Fees and commissions include credit card membership fees, bancassurance fees, interchange fees, merchant discounts and other commissions.

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Recovery on written-off assets	**₱360,121**	₱235,558	₱150,192	**₱355,353**	₱234,675	₱148,344
Rental income	**26,377**	5,226	4,546	**26,811**	5,379	4,546
Dividend income	**6,390**	7,108	22,221	**6,390**	7,108	22,221
Others	**76,830**	58,547	45,072	**68,781**	47,086	39,749
	₱469,718	₱306,439	₱222,031	**₱457,335**	₱294,248	₱214,860

Others include referral income earned on insurance premiums charged through credit cards.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Security, messengerial and janitorial services	**₱543,307**	₱457,280	₱429,635	**₱487,061**	₱420,577	₱403,015
Insurance	**466,550**	351,853	264,238	**441,132**	334,907	249,577
Technological fees	**411,147**	352,010	242,537	**411,012**	352,010	242,519
Brokerage fees	**400,064**	326,214	206,896	**454,648**	342,268	223,378
Advertising	**393,923**	403,739	407,578	**382,113**	394,377	401,688
Postage, telephone, cables and telegram	**359,552**	315,743	323,304	**332,114**	296,584	310,845
Service charges, fees and commissions	**325,653**	390,087	657,067	**325,652**	390,170	635,241
Transportation and travel	**228,896**	213,759	194,571	**167,599**	170,896	167,762
Power, light and water	**187,557**	186,725	183,769	**168,231**	173,234	171,983
Management and other professional fees	**169,681**	150,243	81,768	**165,986**	148,309	79,733
Stationery and supplies	**113,165**	78,801	79,992	**91,813**	70,195	73,088
Repairs and maintenance	**109,685**	77,790	74,303	**98,864**	70,567	63,836
Litigation expenses	**74,940**	33,689	37,099	**74,940**	33,685	37,072
Supervision fees	**71,340**	42,881	42,353	**68,606**	41,118	41,010
Entertainment, amusement and recreation	**56,596**	46,653	48,223	**50,262**	42,852	45,306
Others	**275,358**	205,844	190,230	**262,987**	198,022	184,540
	₱4,187,414	₱3,633,311	₱3,463,563	**₱3,983,020**	₱3,479,771	₱3,330,593

Others include payments for subscriptions, membership fees, trainings, donations and contributions, delivery and freight expenses, fines, penalties, other charges and clearing fees.

24. 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 and documentary stamp taxes. 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.

Republic Act (RA) No. 9397, *An Act Amending National Internal Revenue Code*, provides that the Regular Corporate Income Tax (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 Regulation 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:						
Regular corporate income tax	**₱1,203,632**	₱939,144	₱461,276	**₱769,876**	₱665,314	₱275,722
Final tax	**164,689**	58,765	77,563	**164,545**	58,654	77,281
	1,368,321	997,909	538,839	**934,421**	723,968	353,003
Deferred	**(634,364)**	(338,577)	25,206	**(590,495)**	(336,995)	43,411
	₱733,957	₱659,332	₱564,045	**₱343,926**	₱386,973	₱396,414

The components of the Group's and the Parent Company's net deferred tax assets as of December 31, 2016 and 2015 follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱1,986,674**	₱1,473,378	**₱1,968,413**	₱1,450,264
Accrued expenses and other deferred income	**175,505**	96,574	**118,174**	93,910
Accumulated depreciation of assets foreclosed or dacioned	**115,657**	91,304	**115,655**	91,302
Deferred bancassurance fee	**85,497**	–	**85,497**	–
Net retirement obligation*	**24,996**	14,962	**24,912**	14,315
Unamortized past service cost	**2,629**	3,786	**2,629**	3,786
Unrealized trading loss	**118**	14,309	**118**	14,309
	2,391,076	1,694,313	**2,315,398**	1,667,886
Deferred tax liability on:				
Branch licenses acquired from business combination (Note 10)	**187,620**	187,620	**187,620**	187,620
Gain on asset foreclosure and dacion transactions	**102,697**	107,747	**102,586**	107,636
Remeasurement of investment in a joint venture	**67,167**	–	**67,167**	–
Excess of fair value over carrying value of net assets acquired from business combinations	**41,883**	43,369	**41,883**	43,369
Unrealized foreign exchange gain	**19,244**	33,306	**19,243**	33,305
	418,611	372,042	**418,499**	371,930
	₱1,972,465	₱1,322,271	**₱1,896,899**	₱1,295,956

**includes DTA acquired from business combination (see Note 7)*

As of December 31, 2016 and 2015, the Group did not recognize deferred tax assets on the following temporary differences:

	Consolidated	
	2016	2015
Allowance for credit and impairment losses	**₱197,673**	₱197,673

As of December 31, 2016 and 2015, the Group and the Parent Company do not have net operating loss carryforwards.

Provision for deferred income tax charged directly to OCI during the year for the Group and the Parent Company follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Remeasurements on retirement plan	**₱9,884**	₱6,268	**₱10,448**	₱6,210

The reconciliation of statutory income tax at statutory tax rate to the effective income tax follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Statutory income tax	**₱1,242,514**	₱798,980	₱791,227	**₱1,125,505**	₱717,272	₱740,938
Additions to (reductions from) income taxes resulting from the tax effects of:						
Nondeductible expenses	**87,425**	119,385	233,066	**84,981**	117,442	232,698
FCDU income	**(435,787)**	(100,560)	(250,539)	**(435,787)**	(100,560)	(250,539)
Non taxable and tax-exempt income	**(84,307)**	(50,047)	(139,699)	**(355,188)**	(167,819)	(261,748)
Interest income subjected to final tax net of tax paid	**(75,888)**	(73,750)	(35,356)	**(75,585)**	(73,694)	(35,021)
Change in unrecognized deferred tax assets and others	–	(34,676)	(34,654)	**–**	(105,668)	(29,914)
Effective income tax	**₱733,957**	₱659,332	₱564,045	**₱343,926**	₱386,973	₱396,414

25. Retirement Plan

The existing regulatory framework, RA No. 7641, *the Retirement Pay Law* requires companies with at least ten (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.

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits (equivalent to 125.00% of the final monthly salary for every year of service depending on the tenure of the employee) after satisfying certain age and service requirements. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

EWRB

EWRB has a noncontributory defined benefit plan covering substantially all of its officers and regular employees. The benefits are based on years of service and final compensation. The retirement plan provides retirement benefits equal to 100.00% of the final monthly salary for every year of service. As of December 31, 2016 and 2015, the retirement plan of EWRB is unfunded.

PSPI

PSPI does not have a formal retirement plan. As such, PSPI's retirement liability is based on the requirement of RA No. 7641. For purposes of calculating the retirement liability under RA No. 7641, PSPI obtained an actuarial valuation.

The net retirement obligation included in 'Other liabilities' in the statements of financial position are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Present value of the defined benefit obligation	**₱776,690**	₱645,344	**₱769,577**	₱643,186
Fair value of plan assets	**687,625**	596,560	**687,625**	596,560
Net retirement obligation	**₱89,065**	₱48,784	**₱81,952**	₱46,626

Changes in the present value of the defined benefit obligation as of December 31, 2016 and 2015 recognized in the statements of financial position follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year	**₱645,344**	₱555,340	**₱643,186**	₱554,342
Assumed from business combination	**4,486**	–	**–**	–
Current service cost	**112,272**	103,027	**110,238**	102,105
Interest cost	**31,701**	24,436	**31,387**	24,391
Remeasurement (gains) losses:				
Actuarial losses arising from deviations of experience from assumptions	**18,778**	17,613	**19,732**	17,347
Actuarial gains arising from changes in financial assumptions	**(17,722)**	(30,360)	**(16,875)**	(30,287)
Actuarial gains arising from changes in financial assumptions	**(78)**	–	**–**	–
Benefits paid	**(18,091)**	(24,712)	**(18,091)**	(24,712)
Balance at end of year	**₱776,690**	₱645,344	**₱769,577**	₱643,186

Changes in the fair value of plan assets are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year	**₱596,560**	₱528,415	**₱596,560**	₱528,415
Contributions	**112,013**	103,247	**112,013**	103,247
Interest income	**29,112**	23,250	**29,112**	23,250
Remeasurements	**(31,969)**	(33,640)	**(31,969)**	(33,640)
Benefits paid	**(18,091)**	(24,712)	**(18,091)**	(24,712)
Balance at end of year	**₱687,625**	₱596,560	**₱687,625**	₱596,560

The fair value of plan assets by class are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cash and cash equivalents	**₱107,186**	₱162,572	**₱107,186**	₱162,572
Equity instruments:				
Financial services	**327,219**	236,704	**327,219**	236,704
Real estate	**5,510**	5,446	**5,510**	5,446
Retail	**–**	104	**–**	104
Holding	**1**	82	**1**	82
Utilities	**–**	62	**–**	62
Debt instruments:				
Private securities	**178,015**	113,259	**178,015**	113,259
Government securities	**67,050**	75,777	**67,050**	75,777
Others	**2,644**	2,554	**2,644**	2,554
Fair value of plan assets	**₱687,625**	₱596,560	**₱687,625**	₱596,560

The Parent Company's plan assets are carried at fair value. The fair value of investments in equity and debt securities (except for investment in LTNCD) are based on quoted price in the active market. The fair value of investment in LTNCD is based on the present value of future cash flow discounted using prevailing market rate. The fair value of other assets and liabilities, which include deposits in 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.

Each year, an Asset-Liability Matching Study (ALMS) is performed with the result being analyzed in terms of risk-and-return profiles. The Parent Company's current strategic investment strategy consists of 70.00% of debt instruments, 25.00% of equity instruments, and 5.00% cash.

The Parent Company expects to contribute ₱112.10 million to the plan in 2017.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	Parent Company		EWRB		PSPI	
	2016	2015	**2016**	2015	**2016**	2015
Discount rate						
At January 1	**4.88%**	4.40%	**4.68%**	4.53%	**4.90%**	4.50%
At December 31	**5.12%**	4.88%	**5.35%**	4.68%	**5.29%**	4.90%
Future salary increase rate	**5.00%**	5.00%	**5.00%**	5.00%	**6.00%**	6.00%
Average remaining working life	**17.00**	16.00	**20.00**	16.00	**4.47**	19.76

The sensitivity analysis below on the defined benefit obligation as of December 31, 2016 and 2015 has been determined based on reasonably possible changes of each significant assumption, assuming all other assumptions were held constant.

	Increase in defined benefit obligation			
	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Decrease in discount rate of 1%	**₱77,298**	₱67,207	**₱75,723**	₱66,673
Increase in salary rate increase of 1%	**76,134**	66,039	**74,578**	65,511
Improvement in employee turnover by 10%	**28,168**	25,687	**27,317**	25,243

The amounts included in Compensation and fringe benefits expense in the statements of income are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current service cost	**₱112,272**	₱103,027	₱89,280	**₱110,238**	₱102,105	₱88,678
Net interest expense	**2,589**	1,186	60	**2,275**	1,141	51
Expense recognized	**₱114,861**	₱104,213	₱89,340	**₱112,513**	₱103,246	₱88,729

26. Leases

The Group leases several premises occupied by its head office and branches. Some leases are subject to annual escalation of 5.00% to 10.00% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties. In 2016, 2015 and 2014, the total rentals of the Group charged to operations amounted to ₱873.12 million, ₱738.15 million, and ₱629.29 million, respectively. In 2016, 2015 and 2014, total rentals charged to operations by the Parent Company amounted to ₱815.40 million, ₱699.68 million, and ₱607.01 million, respectively.

Future minimum annual rentals payable under the aforementioned lease agreements follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱685,822**	₱674,597	**₱595,768**	₱625,635
After one year but not more than five years	**2,135,346**	2,178,171	**1,990,871**	2,004,968
More than five years	**829,647**	1,151,938	**777,442**	1,084,234
	₱3,650,815	₱4,004,706	**₱3,364,081**	₱3,714,837

27. **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 Group's related parties include:

- key management personnel, close family members of key management personnel, and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business.

The amounts and the balances arising from the foregoing significant related party transactions of the Group and of the Parent Company are as follows:

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Significant investors:			
Loans receivable	**₱–**	**₱5,621,850**	Loans granted with a term of seven years, interest of 4.06%, secured, no impairment
Deposit liabilities	**–**	**2,784,273**	Earns interest at the respective bank deposit rates
Accrued interest receivable	**–**	**65,296**	Interest income accrued on outstanding loans receivable
Accrued expenses	**–**	**5,941**	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	**–**	**1,378,150**	Unused credit line (omnibus facility) with term of 10 months
Interest income	**228,247**	**–**	Interest income on loans receivable
Interest expense	**8,479**	**–**	Interest expense on deposit liabilities
Key management personnel:			
Deposit liabilities	**–**	**107,786**	Earns interest at the respective bank deposit rates
Interest expense	**271**	**–**	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	**–**	**5,191,187**	Loans granted with terms ranging from three months to thirteen and a half years, interest ranging from 4.0% to 11.52%, 97% secured by real estate and chattel mortgage, no impairment
Receivables purchased	**–**	**371,504**	Receivables purchased by the Parent Company from FLI
Deposit liabilities	**–**	**6,417,226**	Earns interest at the respective bank deposit rates
Guarantees and commitments	**–**	**12,000**	Unused credit lines
Accrued interest receivable	**–**	**4,593**	Interest income accrued on outstanding loans receivable
Accounts receivable	**–**	**303,753**	Receivable from FAI on the sale of land by the Parent Company, payable in 5 years, interest of 6.00% (Note 11) and reimbursement of expenses paid on behalf of EW Ageas Life
Interest income	**323,445**	**–**	Interest income on loans receivable
Interest expense	**51,348**	**–**	Interest expense on deposit liabilities
Commission fees	**3,000**		Commission fees received from EW Ageas Life
Service fee expense	**1,518**	**–**	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (see Note 9)
Rent expense	**40,505**	**–**	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

	2015		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Significant investors:			
Loans receivable	₱–	₱5,621,850	Loans granted with a term of seven years, interest of 4.50%, secured by REM and deposits, no impairment
Deposit liabilities	–	1,671,459	Earns interest at the respective bank deposit rates
Accrued interest receivable	–	62,760	Interest income accrued on outstanding loans receivable
Accrued expenses	–	20,502	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	150,097	Unused credit lines
Interest income	228,247	–	Interest income on loans receivable
Interest expense	9,458	–	Interest expense on deposit liabilities
Key management personnel:			
Loans receivable	–	33,433	Loans granted with terms ranging from two to fifteen years, interest ranging from 6.00% to 10.27%, secured at 100%
Deposit liabilities	–	28,758	Earns interest at the respective bank deposit rates
Accrued interest receivable	–	196	Interest income accrued on outstanding loans receivable
Interest income	3,149	–	Interest income on loans receivable
Interest expense	147	–	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	–	4,834,271	Loans granted with terms ranging from three months to thirteen and a half years, interest ranging from 4.0% to 11.52%, 97% secured by real estate and chattel mortgage, no impairment
Receivables purchased	–	519,481	Receivables purchased by the Parent Company from FLI
Deposit liabilities	–	9,580,469	Earns interest at the respective bank deposit rates
Accrued interest receivable	–	7,779	Interest income accrued on outstanding loans receivable
Guarantees and commitments	–	444,574	Unused credit lines
Accounts receivables	–	431,529	Receivable from FAI on the sale of land by the Parent Company, payable in 5 years, interest of 6.00% (Note 11) and advances to EW Ageas Life
Interest income	310,346	–	Interest income on loans receivable
Interest expense	23,625	–	Interest expense on deposit liabilities
Service fee expense	1,946	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (see Note 9)
Rent expense	43,178	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

The Group's significant investors pertain to FDC, the immediate Parent Company of the Group, and FDC Forex Corporation (a company under common control of FDC).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24. The Group provides banking services to its key management personnel.

Other related parties pertain to the Group's affiliates (subsidiaries of FDC).

The Group and the Parent Company had no outright purchases and outright sale of debt securities with significant shareholders and key management personnel in 2016 and 2015. In 2014, the Parent Company purchased peso-denominated debt securities issued by Filinvest Land, Inc., an affiliate, with market value amounting to ₱99.68 million as of December 31, 2014.

No provision and allowance for loan losses was recognized by the Group for loans to significant investors, key management personnel and other related parties in 2016, 2015, and 2014.

The Parent Company's subsidiaries have no transactions with related parties outside of the Group. The transactions disclosed above are the same for the Group and the Parent Company.

Parent Company Related Party Transactions
Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Details of the Parent Company's subsidiaries are disclosed in Note 10.

In addition to the transactions discussed above, the following are the transactions between the Parent Company and its subsidiaries that are recognized in the Parent Company's statements of financial position and statements of income and eliminated in the consolidated financial statements:

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/ Nature**
Subsidiaries:			
Receivables purchased	**₱22,743,646**	**₱17,439,621**	Receivables purchased by the Parent Company from EWRB (see Note 9)
Receivable sold	**392,195**	**–**	Employee loans sold by the Parent Company to EWRB (see Note 9)
Accounts receivable	**–**	**97,010**	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Deposit liabilities	**–**	**375,589**	Earns interest at the respective bank deposit rates
Accounts payable	**–**	**12,246**	Cash reloading transactions between EWRB and the Parent Company
Interest expense	**678**	**–**	Interest expense on deposits of EWRB and EWIB
Service fee expense	**57,460**	**–**	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (see Note 9)
Service fee income	**481**	**–**	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold (see Note 9)
Commission expense	**316**	**–**	Commission expense paid by the Parent Company to PSPI

	2015		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Subsidiaries:			
Loans receivable	₱–	₱36,437	Loan Accommodation granted with a term of seven days.
Receivables purchased	12,925,050	8,335,049	Receivables purchased by the Parent Company from EWRB (see Note 9)
Accrued interest receivable	–	–	Interest on receivables purchased from EWRB and loans granted to EWRB at 4.00% per annum
Accounts receivable	–	1,100,957	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted by EWRB and other related expenses shouldered by the Parent Company on behalf of EWRB and EWIB.
Deposit liabilities	–	292,135	Earns interest at the respective bank deposit rates
Accounts payable	–	64,907	Cash reloading transactions between EWRB and the Parent Company
Interest income	8,044	–	Interest income on outstanding loans receivable
Interest expense	366	–	Interest expense on deposits of EWRB and EWIB
Service fee expense	30,572	–	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (see Note 9)

Transactions with Retirement Plans
Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee. The values of the assets of the fund are as follows:

	2016	2015
Cash and cash equivalents	**₱107,186**	₱162,572
Equity instruments	**332,730**	242,398
Debt instruments	**245,065**	189,036
Others	**2,644**	2,554
	₱687,625	₱596,560

As of December 31, 2016 and 2015, cash and cash equivalents include the savings deposit with the Parent Company amounting to ₱6.20 million and ₱32.59 million, respectively, and debt instruments include investments in the Parent Company's LTNCD amounting to ₱65.03 million and ₱66.55 million, respectively. Equity instruments include investments in the Parent Company's PhilEquity Institutional Feeder Fund amounting to ₱19.42 million, equivalent to 21,656 shares with fair market value of ₱896.85 per share as of December 31, 2016, and ₱177.69 million, equivalent to 195,467 shares with fair market value of ₱909.07 per share as of December 31, 2015, the Parent Company's equity securities amounting to ₱80.43 million, equivalent to 4,338,337 common shares with fair market value of ₱18.54 per share as of December 31, 2016, and ₱48.73 million, equivalent to 2,572,637 common shares with fair market value of ₱18.94 per share as of December 31, 2015, and the Parent Company's PSEi Tracker Fund amounting to ₱186.31 million, equivalent to 1,946,857 shares with fair market value of ₱95.70 per share as of December 31, 2016.

The following are the amounts recognized by the retirement plan arising from its transactions with the Parent Company for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Trust fees	**₱2,577**	₱2,899	₱2,462
Interest income on savings deposit	**726**	146	136
Interest income on investments in LTNCD	**2,921**	2,936	2,942
Loss on investments in equity shares	**(22,452)**	(25,892)	(30)

Remunerations of Directors and other Key Management Personnel
Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Short-term employee benefits	**₱164,776**	₱177,663	₱160,477	**₱149,994**	₱164,798	₱146,966
Post employment benefits	**15,501**	7,723	8,192	**15,501**	7,723	8,192
	₱180,277	₱185,386	₱168,669	**₱165,495**	₱172,521	₱155,158

Remunerations given to directors which were approved by the Board Remuneration Committee amounted to ₱12.00 million in 2016, ₱13.40 million in 2015 and ₱13.08 million in 2014 for the Group and the Parent Company.

Regulatory Reporting
As required by BSP, the Group discloses loan transactions with investees 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 lending company within the Group. 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 said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Total outstanding DOSRI accounts	**₱10,813,486**	₱10,322,185	₱7,759,327	**₱10,813,486**	₱10,654,933	₱8,085,550
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.000%**	0.000%	0.000%	**0.000%**	0.000%	0.000%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**5.369%**	6.401%	6.283%	**5.660%**	6.917%	6.869%
Percent of DOSRI accounts to total loans	**5.369%**	6.402%	6.283%	**5.660%**	6.917%	6.869%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.002%**	3.928%	3.315%	**0.002%**	3.805%	7.216%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.002%**	0.000%	0.001%	**0.002%**	0.000%	0.001%

The amounts of loans 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, 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.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation. As of December 31, 2016 and 2015, the Parent Company is in compliance with this requirement.

28. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Parent Company. The combined trust and managed funds of the Trust Department of the Parent Company amounted to ₱11.99 billion and ₱6.74 billion as of December 31, 2016 and 2015, respectively.

Government securities with total face value of ₱183.59 million and ₱86.90 million as of December 31, 2016 and 2015, respectively, are deposited with the BSP in compliance with current banking regulations related to the Parent Company's trust functions. These government securities are recorded as part of investment securities at amortized cost as of December 31, 2016 and 2015.

In accordance with BSP regulations, 10.00% of the profits realized by the Parent Company from its trust operations are appropriated to surplus reserves. The yearly appropriation is required until the surplus reserves for trust operations amounts to 20.00% of the Parent Company's authorized capital stock.

The Parent Company's income from its trust operations amounted to ₱18.60 million, ₱17.01 million and ₱20.37 million in 2016, 2015 and 2014, respectively.

29. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

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

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

	2016	2015	2014
Unused credit line - credit cards	**₱45,144,348**	₱29,833,506	₱28,580,201
Trust department accounts (Note 28)	**11,988,488**	6,740,656	6,914,400
Treasurer/cashier/manager's checks	**6,212,417**	4,205,581	2,424,865
Unused commercial letters of credit	**3,279,530**	3,922,980	2,194,609
Financial futures sold	**2,150,176**	–	–
Outstanding guarantees	**1,842,861**	2,514,371	1,149,045
Outward bills for collection	**1,542,343**	831,419	111,494
Inward bills for collection	**1,266,388**	832,312	240,947
Spot exchange bought	**1,140,453**	47,060	1,703,870
Forward exchange sold	**275,495**	5,377	4,516,250
Late deposits/payments received	**6,483**	11,706	350,747
Items held for safekeeping	**5,966**	792	756
Unsold traveler's check	**–**	28	27
Others	**32**	1,032	2,097

30. Financial Performance

Earnings per share amounts were computed as follows:

		2016	2015	2014
a.	Net income attributable to equity holders of the Parent Company	**₱3,407,756**	₱2,003,935	₱2,073,378
b.	Weighted average number of outstanding common shares by the Parent Company, including effect of stock rights issued in 2015 (Note 22)	**1,499,984**	1,387,235	1,161,738
c.	Basic and diluted EPS (a/b)	**₱2.27**	₱1.44	₱1.78

The Group's basic and diluted earnings per share are equal as there are no potential dilutive shares outstanding.

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	**10.38%**	7.24%	10.17%	**10.76%**	5.95%	8.26%
Return on average assets	**1.32%**	0.99%	1.28%	**1.38%**	0.82%	1.03%
Net interest margin on average earning assets	**7.75%**	8.00%	8.05%	**7.57%**	7.84%	6.93%

31. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments subject to enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2016						
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure**
				Financial Instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c] [a-b]**	**[d]**		**[e] [c-d]**
Derivative assets (Note 5)	**₱167,665**	**₱–**	**₱167,665**	**₱–**	**₱–**	**₱167,665**
Total	**₱167,665**	**₱–**	**₱167,665**	**₱–**	**₱–**	**₱167,665**

December 31, 2015						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c] [a-b]	[d]		[e] [c-d]
Derivative assets (Note 5)	₱167,491	₱–	₱167,491	₱–	₱–	₱167,491
Total	₱167,491	₱–	₱167,491	₱–	₱–	₱167,491

Financial liabilities

December 31, 2016						
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure**
				Financial instruments	Fair value of financial collateral	
	[a]	**[b]**	**[c] [a-b]**	**[d]**		**[e] [c-d]**
Derivative liabilities (Note 5)	**₱194,164**	**₱–**	**₱194,164**	**₱–**	**₱–**	**₱194,164**
Bills payable* (Note 17)	**437,233**	**–**	**437,233**	**–**	**437,233**	**–**
Total	**₱631,397**	**₱–**	**₱631,397**	**₱–**	**₱437,233**	**₱194,164**

December 31, 2015						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c] [a-b]	[d]		[e] [c-d]
Derivative liabilities (Note 5)	₱183,755	₱–	₱183,755	₱–	₱–	₱183,755
Bills payable* (Note 17)	2,693,240	–	2,693,240	–	2,693,240	–
Total	₱2,876,995	₱–	₱2,876,995	₱–	₱2,693,240	₱183,755

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. These include amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

32. Notes to Statement of Cash Flows

Transfers from loans and receivables to investment properties as a result of foreclosures amounted to ₱129.21 million, ₱72.07 million and ₱76.71 million in 2016, 2015 and 2014 respectively, for the Group, and ₱129.21 million, ₱72.07 million and ₱76.29 million in 2016, 2015 and 2014 respectively, for the Parent Company. Amounts mentioned are exclusive of loss on asset foreclosure and dacion transactions amounting to ₱29.45 million and ₱67.12 million in 2016 and 2015, respectively, and gain on asset foreclosure and dacion transactions amounting to ₱19.42 million in 2014, for the Group, and loss on asset foreclosure and dacion transactions amounting to ₱29.45 million and ₱67.12 million in 2016 and 2015, respectively, and gain on asset foreclosure and dacion transactions amounting to ₱19.05 million in 2014, for the Parent Company.

In 2014, the Parent Company sold a land with a carrying value of ₱169.13 million to FAI. The selling price of ₱433.26 million is payable annually for 5 years.

33. Events Subsequent to Reporting Period

On January 12, 2017, the BSP granted the Parent Company authority to issue LTNCD, up to an aggregate amount of ₱10.00 billion, with a quarterly interest rate to be set at PDST-R2 plus 50 basis points or less and a maturity of at least five years and one day and a maximum of ten years for each issue. The Parent Company is initially offering 5.5-year and 7-year tranches, to be issued in 2017.

34. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were approved and authorized for issue by the Parent Company's BOD on February 23, 2017.

35. Supplementary Information Required Under Revenue Regulations 15-2010

Supplementary Information under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010, requiring the inclusion of information on various taxes paid and accrued during the taxable year in the notes to the financial statements.

The Parent Company reported and/or paid the following types of taxes for the year ended December 31, 2016:

Gross Receipts Tax (GRT)
The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, commissions and discounts from lending activities at 5.00% or 1.00%, depending on the remaining maturities of instruments from which such receipts are derived, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

Details of the Parent Company's income and GRT accounts in 2016 are as follows:

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱17,525,251	₱809,902
Other income	1,367,606	95,732
	₱18,892,857	₱905,634

Other Taxes and Licenses
For the year ended December 31, 2016, other taxes and licenses included in 'Taxes and licenses' consist of:

Documentary stamps taxes	₱377,211
Local taxes	17,566
Fringe benefit taxes	18,585
Others	22,095
	₱435,457

Withholding Taxes
Details of withholding taxes remitted and balances as of December 31, 2016 follow:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱505,091	₱42,483
Expanded withholding taxes	128,665	18,640
Final withholding taxes	320,118	30,976
	₱953,874	₱92,099

The Parent Company has no outstanding assessments from the BIR as of December 31, 2016.

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This 2016 annual report contains forward-looking statements about future events and expectations. These forward-looking statements include words or phrases such as the Bank or its management or other words or phrases of similar import.

Similarly, statements that describe the Bank's objectives, plans or goals are also forward-looking statements. All such statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement.

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This report has not been and will not be reviewed or approved by any statutory or regulatory authority or any stock exchange in the Philippines or elsewhere. Recipients of this report should undertake their own assessment with regard to investment in the Bank and they should obtain independent advice on any such investment's suitability, inherent risks and merits and any tax, legal and accounting implications which it may have for them.

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