CHINABANK
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1 March 2017

THE PHILIPPINE STOCK EXCHANGE, INC.
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: **ATTY. JOSE VALERIANO B. ZUNO**
Head, Disclosure Department

Dear Atty. Zuno:

We are pleased to submit the 2016 Audited Financial Statements of China Banking Corporation (CHIB) and its subsidiaries.

Thank you.

Very truly yours,

AEscucha

ALEXANDER C. ESCUCHA
Senior Vice President
Corporate Information Officer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of China Banking Corporation (the Bank) is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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, has audited the consolidated financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Hans T. Sy
Chairman of the Board

Ricardo R. Chua
President & CEO

Delia Marquez
First Vice President-Controller

Republic of the Philippines
Makati City S.S

MAR 0 1 2017

Signed this day of 2017, affiants exhibiting to me their Social Security System Nos. as follows:

Name	SSS Nos.
Hans T. Sy	03-43011743
Ricardo R. Chua	03-24163898
Delia Marquez	03-7205726-0

ALVIN A. QUINTANILLA
Notary Public for Makati City
Appt. No. M-357 until December 2017
[illegible] Building
8755 Paseo de Roxas, Makati City
PTR No. [illegible], 01.04.2017; Makati City
IBP No. 1055829; 01.04.2017; Cavite
Roll of Attorney's No. 40925

Notary Public
Until December 31, 2017
PTR No.
Place

Doc. No.: 300
Page No: 60
Book No: 44
Series of: 2017

China Banking Corporation and Subsidiaries

Financial Statements
December 31, 2016, 2015
and January 1, 2015
and for the years ended December 31, 2016,
2015 and 2014

and

Independent Auditor's Report

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
China Banking Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of China Banking Corporation and its subsidiaries (the Group) and the parent company financial statements of China Banking Corporation, which comprise the consolidated and parent company balance sheets 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.

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

Adequacy of allowance for credit losses on loans and receivables

Loans and receivables comprise 61.09% and 58.86% of the total assets of the Group and the Parent Company as of December 31, 2016, respectively. Reflecting these assets and the related allowance for credit losses at their appropriate amounts is a key area of judgment for the management. The Group determines the allowance for credit losses on an individual basis for individually significant loans and receivables. In contrast, allowance for credit losses on loans and receivables that are not individually significant or are not specifically impaired are collectively determined. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various factors such as the financial condition of the borrower, the borrower's payment behavior and expectation of amounts and timing of collections or liquidation of collateral. The use of assumptions could produce significantly different estimates of allowance for credit losses. The disclosures in relation to allowance for credit and impairment losses are included in Notes 3, 5 and 15 of the financial statements.

Audit Response
We obtained an understanding of the Group's credit monitoring and impairment process and tested the relevant key controls for these processes, including the underlying data and systems. For allowance for credit losses calculated on an individual basis, we obtained sample loan accounts and tested the assumptions underlying the impairment identification following the Group's internal risk rating and accounts' age. We also tested the allowance quantification by comparing forecasts of future cash flows with the accounts' historical collection, including any collections after yearend, repayment agreements and availability of collateral. For impaired accounts expecting recovery through foreclosure of collateral, we checked mortgage documents and tested for any other outstanding encumbrances, and agreed values of collaterals used to the appraisal reports and historical sales. We also checked the discount rates used if they are based on the loans' original effective interest rate (EIR) for fixed-rate loans, and the current EIR adjusted for the original credit risk premium for floating-rate loans, and re-performed impairment calculation.

For allowance for credit losses calculated on a collective basis, we tested the underlying impairment model and related inputs (e.g., historical loss rates). We performed said testing by checking credit risk groupings and agreeing model inputs to subsidiary ledgers, reports on aging and historical recoveries on fully impaired accounts.

Recoverability of Goodwill
Under PFRS, the Group and the Parent Company are required to annually test the amount of goodwill for impairment. Goodwill recognized in the consolidated and parent company financial statements

amounting to ₱222.84 million is attributed to the Parent Company's Retail Banking Business (RBB) segment, while goodwill of ₱616.91 million in the consolidated financial statements is attributed to the subsidiary bank, China Bank Savings, Inc. (CBSI). The annual impairment test, which is performed by determining the recoverable amounts of the cash generating units (CGUs) based on value-in-use (VIU) calculation, is significant to our audit because the management's assessment process requires significant judgment and is based on assumptions. The assumptions used in the calculation are sensitive to estimates of future cash flows from the relevant CGUs, growth rates used to project future cash flows beyond the budget period and the discount rates. The disclosures in relation to goodwill are included in Notes 3 and 13 of the financial statements.

Audit Response

We obtained an understanding of the Group's impairment process and related controls. We evaluated the financial forecast used by the management for the VIU calculation by comparing key assumptions used in the financial forecast. This includes comparing the loan and deposit growth rates against the historical performance of the CGUs, banking industry outlook, and other relevant external data. We also involved our internal specialist in assessing the methodology and other key assumptions used by the Group in the VIU calculation – particularly those relating to growth rates used to project future cash flows beyond the forecast period and testing the parameters used to derive discount rates. We also checked the Group's disclosures with regard to assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Realizability of deferred tax assets
As disclosed in Notes 3 and 26 of the financial statements, as of December 31, 2016, the Parent Company has recognized deferred tax assets on all temporary differences, while the Group has recognized and unrecognized deferred tax assets. The realizability of deferred tax assets recognized depends on the Group's ability to continuously generate sufficient future taxable income. The realizability of deferred tax assets' analysis was significant to our audit because the assessment process is based on assumptions that are affected by expected future market or economic conditions, and the expected performance of the Group and the Parent Company.

Audit Response

We obtained an understanding of the Group's deferred income tax calculation process, including the applicable tax regulations. We reviewed the management's assessment on the availability of future taxable income considering the Group's financial forecast and tax strategies. We also discussed the business plans supporting such forecast with the management. We evaluated the forecast by comparing key assumptions, such as loans and deposit growth rates, with the Group's historical performance and the market outlook for the banking industry. We also reviewed the availability of taxable income and the reversal of temporary differences' timing to which the deferred tax assets are attributed to.

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 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 Parent Company 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 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 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 36 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 China 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 Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 5908666, January 3, 2017, Makati City

March 1, 2017

CHINA BANKING CORPORATION AND SUBSIDIARIES

BALANCE SHEETS

(Amounts in Thousands)

	Consolidated		Parent Company		
	December 31				January 1
				2015	2015
	2016	2015	**2016**	(As restated – Note 2)	
ASSETS					
Cash and Other Cash Items	**₱12,010,543**	₱11,377,101	**₱10,580,748**	₱10,052,891	₱9,295,130
Due from Bangko Sentral ng Pilipinas (Notes 7 and 16)	**91,964,495**	86,318,501	**85,307,128**	77,003,616	60,543,867
Due from Other Banks (Note 7)	**11,332,236**	21,243,492	**9,689,165**	19,200,544	15,836,701
Interbank Loans Receivables and Securities Purchased under Resale Agreements	**3,451,543**	–	**2,958,465**	–	223,600
Financial Assets at Fair Value through Profit or Loss (Note 8)	**7,703,899**	6,244,593	**7,232,882**	5,465,417	8,012,435
Available-for-Sale Financial Assets (Note 8)	**33,873,723**	48,829,233	**31,153,750**	46,834,199	37,075,238
Held-to-Maturity Financial Assets (Note 8)	**57,404,800**	16,136,147	**54,069,021**	13,945,645	11,353,788
Loans and Receivables (Notes 9 and 28)	**386,827,300**	309,761,777	**329,069,859**	259,645,008	245,257,221
Accrued Interest Receivable (Note 15)	**3,014,529**	2,621,737	**2,666,353**	2,201,247	1,910,677
Investment in Subsidiaries (Notes 2 and 10)	–	–	**12,169,037**	9,141,177	5,397,402
Investment in Associates (Notes and 10)	**276,559**	371,399	**276,559**	371,399	532,689
Bank Premises, Furniture, Fixtures and Equipment (Note 11)	**6,496,268**	6,354,119	**5,143,981**	4,997,202	4,748,199
Investment Properties (Note 12)	**5,349,739**	5,398,139	**1,760,876**	1,899,862	1,901,363
Deferred Tax Assets (Note 26)	**1,666,267**	1,381,280	**1,508,150**	1,369,147	842,367
Intangible Assets (Notes 10 and 13)	**4,089,715**	3,972,308	**805,582**	762,808	455,000
Goodwill (Notes 10 and 13)	**839,748**	839,748	**222,841**	222,841	222,841
Other Assets (Note 14)	**6,896,647**	5,977,389	**4,504,100**	3,949,430	3,639,729
	₱633,198,011	₱526,826,963	**₱559,118,497**	₱457,062,433	₱407,248,247
LIABILITIES AND EQUITY					
Liabilities					
Deposit Liabilities (Notes 16 and 28)					
Demand	**₱135,263,113**	₱113,511,283	**₱122,265,663**	₱103,024,840	₱88,942,591
Savings	**141,155,766**	114,046,323	**132,772,300**	104,135,171	86,798,098
Time	**265,164,139**	211,708,080	**215,924,029**	166,443,405	165,343,946
	541,583,018	439,265,686	**470,961,992**	373,603,416	341,084,635
Bills Payable (Note 17)	**16,954,998**	19,085,180	**16,954,998**	18,422,650	5,177,601
Manager's Checks	**2,029,778**	1,456,498	**1,445,585**	741,479	822,179
Income Tax Payable	**437,303**	375,780	**354,212**	345,312	1,397
Accrued Interest and Other Expenses (Note 18)	**1,868,190**	1,584,274	**1,561,351**	1,260,995	1,312,475
Derivative Liabilities (Note 24)	**243,198**	66,373	**243,198**	66,373	101,610
Deferred Tax Liabilities (Note 26)	**1,161,414**	1,116,147	–	–	–
Other Liabilities (Note 19)	**5,533,908**	4,706,121	**4,205,745**	3,445,764	2,182,919
	569,811,807	467,656,059	**495,727,081**	397,885,989	350,682,816
Equity					
Equity Attributable to Equity Holders of the Parent Company					
Capital stock (Note 22)	**20,020,278**	18,537,285	**20,020,278**	18,537,285	17,164,143
Capital paid in excess of par value (Note 22)	**6,987,564**	6,987,564	**6,987,564**	6,987,564	6,987,564
Surplus reserves (Notes 22 and 27)	**861,630**	828,406	**861,630**	828,406	800,006
Surplus (Notes 22 and 27)	**36,889,099**	33,800,748	**36,889,099**	33,800,748	31,312,038
Net unrealized gains (losses) on available-for-sale financial assets (Note 8)	**(1,598,600)**	(1,126,080)	**(1,598,600)**	(1,126,080)	122,920
Remeasurement gain on defined benefit asset (Note 23)	**253,945**	183,155	**253,945**	183,155	199,152
Cumulative translation adjustment	**(22,500)**	(34,634)	**(22,500)**	(34,634)	(20,392)
	63,391,416	59,176,444	**63,391,416**	59,176,444	56,565,431
Non-controlling Interest	**(5,212)**	(5,540)	–	–	–
	63,386,204	59,170,904	**63,391,416**	59,176,444	56,565,431
	₱633,198,011	₱526,826,963	**₱559,118,497**	₱457,062,433	₱407,248,247

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF INCOME
(Amounts in Thousands)

	Consolidated			Parent Company		
	Years ended December 31					January 1
					2015	2015
	2016	2015	2014	**2016**	(As restated – Note 2)	
INTEREST INCOME						
Loans and receivables (Notes 9 and 28)	**₱17,889,252**	₱15,900,727	₱14,674,211	**₱14,122,287**	₱12,324,959	₱11,295,416
Trading and investments (Note 8)	**3,282,963**	3,100,802	3,021,786	**3,060,325**	2,946,914	2,872,124
Due from Bangko Sentral ng Pilipinas and other banks (Note 7)	**719,414**	315,805	701,142	**555,788**	182,662	465,089
	21,891,629	19,317,334	18,397,139	**17,738,400**	15,454,535	14,632,629
INTEREST EXPENSE						
Deposit liabilities (Notes 16 and 28)	**4,831,555**	4,008,288	4,016,718	**3,629,127**	2,881,166	2,904,698
Bills payable and other borrowings (Note 17)	**365,879**	223,862	291,674	**354,961**	184,280	141,825
	5,197,434	4,232,150	4,308,392	**3,984,088**	3,065,446	3,046,523
NET INTEREST INCOME	**16,694,195**	15,085,184	14,088,747	**13,754,312**	12,389,089	11,586,106
Service charges, fees and commissions (Note 20)	**2,123,469**	1,834,318	1,561,807	**1,319,448**	1,456,140	1,220,649
Trading and securities gain - net (Notes 8 and 20)	**918,089**	466,834	535,263	**852,870**	459,996	458,896
Gain on sale of investment properties	**443,315**	375,754	355,065	**338,088**	353,249	363,192
Foreign exchange gain - net (Note 24)	**318,135**	330,056	329,944	**299,113**	306,541	335,848
Trust fee income (Note 27)	**330,197**	276,240	251,489	**326,091**	272,251	249,371
Gain on asset foreclosure and dacion transactions (Note 12)	**172,480**	274,978	138,557	**140,747**	150,177	82,306
Share in net income (losses) of subsidiaries (Note 10)	**–**	–	–	**464,999**	(201,901)	(369,126)
Share in net losses of an associate (Note 10)	**(89,384)**	(37,893)	(912)	**(89,384)**	(37,893)	(912)
Miscellaneous (Notes 20 and 28)	**878,445**	966,855	1,588,064	**800,097**	891,953	1,391,226
TOTAL OPERATING INCOME	**21,788,941**	19,572,326	18,848,024	**18,206,381**	16,039,602	15,317,556
Compensation and fringe benefits (Notes 23 and 28)	**4,982,934**	4,674,469	4,170,574	**3,752,229**	3,532,596	3,030,719
Occupancy cost (Notes 25 and 28)	**1,830,675**	1,723,277	1,669,408	**1,281,107**	1,207,677	1,206,551
Taxes and licenses	**2,000,404**	1,587,118	1,737,435	**1,573,887**	1,252,878	1,406,652
Insurance	**1,163,507**	990,788	898,228	**991,179**	827,026	751,526
Depreciation and amortization (Notes 11, 12 and 13)	**1,124,786**	979,412	921,764	**775,210**	676,286	630,577
Provision for impairment and credit losses (Note 15)	**850,546**	966,574	440,901	**521,475**	487,485	100,920
Transportation and traveling	**298,666**	311,587	371,653	**218,136**	222,276	285,042
Professional fees, marketing and other related services	**268,394**	245,760	229,015	**182,275**	187,773	165,534
Entertainment, amusement and recreation	**242,710**	276,809	323,537	**146,993**	156,289	207,048
Stationery, supplies and postage	**241,786**	241,151	195,209	**193,232**	150,956	149,155
Repairs and maintenance	**123,025**	160,902	188,589	**87,734**	102,882	131,855
Miscellaneous (Notes 20 and 28)	**1,073,986**	1,001,934	1,021,799	**941,489**	800,742	725,313
TOTAL OPERATING EXPENSES	**14,201,419**	13,159,781	12,168,112	**10,664,946**	9,604,866	8,790,892
INCOME BEFORE INCOME TAX	**7,587,522**	6,412,545	6,679,912	**7,541,435**	6,434,736	6,526,664
PROVISION FOR INCOME TAX (Note 26)	**1,126,552**	809,969	1,564,927	**1,083,139**	828,070	1,408,832
NET INCOME	**₱6,460,970**	₱5,602,576	₱5,114,985	**₱6,458,296**	₱5,606,666	₱5,117,832
Attributable to:						
Equity holders of the Parent Company (Note 31)	**₱6,458,296**	₱5,606,666	₱5,117,832			
Non-controlling interest	**2,674**	(4,090)	(2,847)			
	₱6,460,970	₱5,602,576	₱5,114,985			
Basic/Diluted Earnings Per Share (Note 31)	**₱3.23**	₱2.80*	₱2.55*			

* Restated to show the effects of stock dividends distributed in 2016 (Note 22).

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years ended December 31					January 1
	2016	2015	2014	**2016**	2015 (As restated – Note 2)	2015
NET INCOME	**₱6,460,970**	₱5,602,576	₱5,114,985	**₱6,458,296**	₱5,606,666	₱5,117,832
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Changes in fair value of available-for-sale financial assets:						
Fair value gain (loss) for the year, net of tax	**449,110**	(487,124)	752,517	**512,561**	(464,471)	730,007
Gains taken to profit or loss (Note 20)	**(918,673)**	(638,723)	(544,094)	**(856,031)**	(629,642)	(541,653)
Share in changes in net unrealized gain on available-for-sale financial assets of an associate (Note 10)	**(5,457)**	(123,397)	(5,970)	**(5,457)**	(123,397)	(5,970)
Share in changes in other comprehensive income of subsidiaries (Note 10)	**–**	–	–	**(87,594)**	(56,844)	(71,892)
Cumulative translation adjustment	**12,455**	(14,242)	(86,686)	**(3,636)**	(14,914)	(87,715)
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gain (loss) on defined benefit asset, net of tax (Note 23)	**71,075**	(16,734)	(405,854)	**50,560**	10,030	(312,902)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(391,490)**	(1,280,220)	(290,087)	**(389,596)**	(1,279,238)	(290,125)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱6,069,480**	₱4,322,356	4,824,898	**₱6,068,700**	₱4,327,428	₱4,827,707
Total comprehensive income attributable to:						
Equity holders of the Parent Company	**₱6,068,700**	₱4,327,428	₱4,827,707			
Non-controlling interest	**780**	(5,072)	(2,809)			
	₱6,069,480	₱4,322,356	₱4,824,898			

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Consolidated									
	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 22)	Capital Paid in Excess of Par Value (Note 22)	Surplus Reserves (Notes 22 and 27)	Surplus (Notes 22 and 27)	Net Unrealized Gains(Losses) on Available-for-Sale Financial Assets (Note 8)	Remeasurement Gain on Defined Benefit Asset or Liability (Note 23)	Cumulative Translation Adjustment	Total	Non-controlling Interest (Note 10)	Total Equity
Balance at January 1, 2016	**₱18,537,285**	**₱6,987,564**	**₱828,406**	**₱33,800,748**	**(₱1,126,080)**	**₱183,155**	**(₱34,634)**	**₱59,176,444**	**(₱5,540)**	**₱59,170,904**
Total comprehensive income (loss) for the year	–	–	–	**6,458,296**	**(472,520)**	**70,790**	**12,134**	**6,068,700**	**780**	**6,069,480**
Additional acquisition of non-controlling interest	–	–	–		–	–	–	–	**(452)**	**(452)**
Transfer from surplus to surplus reserves	–	–	**33,224**	**(33,224)**	–	–	–	–	–	–
Stock dividends - 8.00%	**1,482,993**	–	–	**(1,482,993)**	–	–	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	**(1,853,728)**	–	–	–	**(1,853,728)**	–	**(1,853,728)**
Balance at December 31, 2016	**₱20,020,278**	**₱6,987,564**	**₱861,630**	**₱36,889,099**	**(₱1,598,600)**	**₱253,945**	**(₱22,500)**	**₱63,391,416**	**(₱5,212)**	**₱63,386,204**
Balance at January 1, 2015	₱17,164,143	₱6,987,564	₱800,006	₱31,312,038	₱122,920	₱199,151	(₱20,392)	₱56,565,430	₱2,053	₱56,567,483
Total comprehensive income (loss) for the year	–	–	–	5,606,666	(1,249,000)	(15,996)	(14,242)	4,327,428	(5,072)	4,322,356
Additional acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(2,521)	(2,521)
Transfer from surplus to surplus reserves	–	–	28,400	(28,400)	–	–	–	–	–	–
Stock dividends - 8.00%	1,373,142	–	–	(1,373,142)	–	–	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	(1,716,414)	–	–	–	(1,716,414)	–	(1,716,414)
Balance at December 31, 2015	₱18,537,285	₱6,987,564	₱828,406	₱33,800,748	(₱1,126,080)	₱183,155	(₱34,634)	₱59,176,444	(₱5,540)	₱59,170,904
Balance at January 1, 2014	₱14,276,616	₱671,505	₱775,069	₱29,079,843	(₱79,258)	₱604,715	₱66,347	₱45,394,837	₱4,862	₱45,399,699
Total comprehensive income (loss) for the year	–	–	–	5,117,832	202,178	(405,564)	(86,739)	4,827,707	(2,809)	4,824,898
Transfer from surplus to surplus reserves	–	–	24,937	(24,937)	–	–	–	–	–	–
Issuance of common shares (₱49.50 per share)	1,616,099	6,383,590	–	–	–	–	–	7,999,689	–	7,999,689
Transaction costs on the issuance of common shares	–	(67,531)	–	–	–	–	–	(67,531)	–	(67,531)
Stock dividends - 8.00%	1,271,428	–	–	(1,271,428)	–	–	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	(1,589,272)	–	–	–	(1,589,272)	–	(1,589,272)
Balance at December 31, 2014	₱17,164,143	₱6,987,564	₱800,006	₱31,312,038	₱122,920	₱199,151	(₱20,392)	₱56,565,430	₱2,053	₱56,567,483

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Parent Company							
	Capital Stock (Note 22)	**Capital Paid in Excess of Par Value** (Note 22)	**Surplus Reserves** (Notes 22 and 27)	**Surplus** (Notes 22 and 27)	**Net Unrealized Gains(Losses) on Available-for-Sale Financial Assets** (Note 8)	**Remeasurement Gain on Defined Benefit Asset or Liability** (Note 23)	**Cumulative Translation Adjustment**	**Total Equity**
Balance at January 1, 2016, as previously reported	**₱18,537,285**	**₱6,987,564**	**₱827,231**	**₱34,219,656**	**(₱979,614)**	**₱293,771**	**(₱36,281)**	**₱59,849,612**
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	**1,175**	**(418,908)**	**(146,466)**	**(110,616)**	**1,647**	**(673,168)**
Balance at January 1, 2016, as restated	**18,537,285**	**6,987,564**	**828,406**	**33,800,748**	**(1,126,080)**	**183,155**	**(34,634)**	**59,176,444**
Total comprehensive income (loss) for the year	–	–	–	**6,458,296**	**(472,520)**	**70,790**	**12,134**	**6,068,700**
Transfer from surplus to surplus reserves	–	–	**33,224**	**(33,224)**	–	–	–	–
Stock dividends - 8.00%	**1,482,993**	–	–	**(1,482,993)**	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	**(1,853,728)**	–	–	–	**(1,853,728)**
Balance at December 31, 2016	**₱20,020,278**	**₱6,987,564**	**₱861,630**	**₱36,889,099**	**(₱1,598,600)**	**₱253,945**	**(₱22,500)**	**₱63,391,416**
Balance at January 1, 2015, as previously reported	₱17,164,143	₱6,987,564	₱800,006	₱31,489,977	₱114,499	₱283,741	(₱21,367)	₱56,818,563
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	–	(177,939)	8,421	(84,589)	975	(253,132)
Balance at January 1, 2015, as restated	17,164,143	6,987,564	800,006	31,312,038	122,920	199,152	(20,392)	56,565,431
Total comprehensive income (loss) for the year	–	–	–	5,606,666	(1,249,000)	(15,997)	(14,242)	4,327,427
Transfer from surplus to surplus reserves	–	–	28,400	(28,400)	–	–	–	–
Stock dividends - 8.00%	1,373,142	–	–	(1,373,142)	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	(1,716,414)	–	–	–	(1,716,414)
Balance at December 31, 2015	₱18,537,285	₱6,987,564	₱828,406	₱33,800,748	(₱1,126,080)	₱183,155	(₱34,634)	₱59,176,444
Balance at January 1, 2014	₱14,276,616	₱671,505	₱775,069	₱29,261,042	(₱73,855)	₱596,643	₱66,348	₱45,573,368
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	–	(181,199)	(5,403)	8,072	–	(178,530)
Balance at January 1, 2014, as restated	14,276,616	671,505	775,069	29,079,843	(79,258)	604,715	66,348	45,394,838
Total comprehensive income (loss) for the year	–	–	–	5,117,832	202,178	(405,563)	(86,740)	4,827,707
Transfer from surplus to surplus reserves	–	–	24,937	(24,937)	–	–	–	–
Issuance of common shares (₱49.50 per share)	1,616,099	6,383,590	–	–	–	–	–	7,999,689
Transaction costs on the issuance of common shares	–	(67,531)	–	–	–	–	–	(67,531)
Stock dividends - 8.00%	1,271,428	–	–	(1,271,428)	–	–	–	–
Cash dividends - ₱1.00 per share	–	–	–	(1,589,272)	–	–	–	(1,589,272)
Balance at December 31, 2014	₱17,164,143	₱6,987,564	₱800,006	₱31,312,038	₱122,920	₱199,152	(₱20,392)	₱56,565,431

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years ended December 31					January 1
	2016	2015	2014	**2016**	2015 (As restated – Note 2)	2015 (As restated – Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱7,587,522**	₱6,412,545	₱6,679,912	**₱7,541,435**	₱6,434,736	₱6,526,664
Adjustments for:						
Depreciation and amortization (Notes 11, 12 and 13)	**1,124,786**	979,412	921,764	**775,210**	676,286	630,577
Provision for impairment and credit losses (Notes 12 and 14)	**84,758**	46,592	988,201	**25,065**	358	(766)
Trading and securities gain on available-for-sale financial assets (Note 20)	**(918,673)**	(638,723)	(544,094)	**(856,031)**	(629,642)	(541,653)
Gain on sale of investment properties	**(443,315)**	(375,754)	(355,065)	**(338,088)**	(353,249)	(363,192)
Gain on asset foreclosure and dacion transactions (Note 12)	**(172,480)**	(274,978)	(138,557)	**(140,747)**	(150,177)	(82,306)
Gain on acquisition of additional shares of an associate (Note 10)	–	–	(373,297)	**–**	–	(373,297)
Share in net losses of an associate (Notes 2 and 10)	**89,384**	37,893	912	**89,384**	37,893	912
Share in net losses (income) of subsidiaries (Notes 2 and 10)	–	–	–	**(464,999)**	201,900	369,126
Gain on sale of investments in associates (Note 10)	–	–	(64,557)	–	–	–
Amortization of transaction costs	–	–	(61,855)	–	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at FVPL	**(1,282,482)**	2,160,869	5,742,304	**(1,590,640)**	2,511,781	2,355,789
Loans and receivables	**(78,070,247)**	(20,521,459)	(37,932,588)	**(70,046,054)**	(14,585,919)	(35,019,984)
Other assets	**(1,225,573)**	(444,632)	(2,397,839)	**(882,576)**	(1,230,263)	(639,817)
Increase (decrease) in the amounts of:						
Deposit liabilities	**102,317,332**	39,964,142	463,406	**97,358,575**	32,518,781	1,252,781
Manager's checks	**573,280**	235,103	189,248	**704,106**	(80,700)	117,691
Accrued interest and other expenses	**283,916**	(46,474)	(304,814)	**300,356**	(51,480)	(133,146)
Other liabilities	**827,790**	1,070,312	(199,381)	**759,981**	1,262,845	(778,487)
Net cash generated from (used in) operations	**30,776,000**	28,604,848	(27,386,300)	**33,234,977**	26,563,150	(26,679,108)
Income taxes paid	**(973,575)**	(507,801)	(565,202)	**(863,477)**	(414,842)	(487,635)
Net cash provided by (used in) operating activities	**29,802,425**	28,097,047	(27,951,502)	**32,371,500**	26,148,308	(27,166,743)
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to bank premises, furniture, fixtures and equipment (Note 11)	**(1,258,911)**	(1,493,982)	(1,063,905)	**(1,065,308)**	(1,400,741)	(895,274)
Acquisition through business combination - net of cash acquired (Note 10)	–	–	4,051,917	–	–	–
Additions to equity investments (Note 10)	–	–	–	**(2,700,452)**	(4,002,521)	(4,089,200)
Liquidation of a subsidiary (Note 10)	–	–	–	**50,000**	–	–
Purchases of:						
Held-to-maturity financial assets	**(41,647,865)**	(4,490,149)	(696,783)	**(41,007,909)**	(3,081,425)	–
Available-for-sale financial assets	**(89,249,294)**	(54,192,915)	(22,893,153)	**(87,747,373)**	(53,870,729)	(22,211,530)
Proceeds from sale/maturity of:						
Held-to-maturity financial assets	**374,569**	463,346	804,157	**884,532**	489,568	768,801
Available-for-sale financial assets	**104,653,914**	43,031,164	29,570,640	**103,940,382**	43,647,299	29,062,490
Investment properties	**977,963**	1,137,792	1,449,958	**675,003**	327,682	954,913
Bank premises, furniture, fixtures and equipment	**151,286**	567,758	304,304	**199,460**	571,677	325,410
Investments in associates (Note 10)	–	–	283,599	–	–	–
Net cash provided by (used in) investing activities	**(25,998,338)**	(14,976,986)	11,810,734	**(26,771,665)**	(17,319,190)	3,915,610
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills payable	**18,588,791**	19,151,089	4,629,728	**18,588,791**	18,488,559	4,335,248
Settlement of bills payable	**(20,718,973)**	(6,386,489)	(8,480,028)	**(20,056,443)**	(5,243,510)	(7,456,841)
Settlement of subordinated debt (Note 17)	–	(1,188,762)	(525,000)	–	–	–
Payments of cash dividends (Note 22)	**(1,853,728)**	(1,716,414)	(1,589,272)	**(1,853,728)**	(1,716,414)	(1,589,272)
Acquisitions of non-controlling interest (Note 10)	**(452)**	(2,521)	–	–	–	–
Proceeds from issuance of common shares (Note 22)	–	–	7,932,158	–	–	7,932,158
Net cash provided by (used in) financing activities	**(3,984,362)**	9,856,903	1,967,586	**(3,321,380)**	11,528,635	3,221,293
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱180,277)**	₱22,976,964	(₱14,173,182)	**₱2,278,455**	₱20,357,753	(₱20,029,840)

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years ended December 31					January 1
	2016	2015	2014	**2016**	2015 (As restated – Note 2)	2015 (As restated – Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱180,277)**	₱22,976,964	(₱14,173,182)	**₱2,278,455**	₱20,357,753	(₱20,029,840)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**11,377,101**	10,734,059	7,281,641	**10,052,891**	9,295,130	7,035,251
Due from Bangko Sentral ng Pilipinas (Note 7)	**86,318,501**	67,451,648	78,968,133	**77,003,616**	60,543,867	75,678,312
Due from other banks (Note 7)	**21,243,492**	17,552,823	23,885,538	**19,200,544**	15,836,701	23,215,575
Interbank loans receivables	**–**	223,600	–	**–**	223,600	–
	₱118,939,094	95,962,130	110,135,312	**106,257,051**	85,899,298	105,929,138
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**12,010,543**	11,377,101	10,734,059	**10,580,748**	10,052,891	9,295,130
Due from Bangko Sentral ng Pilipinas (Note 7)	**91,964,495**	86,318,501	67,451,648	**85,307,128**	77,003,616	60,543,867
Due from other banks (Note 7)	**11,332,236**	21,243,492	17,552,823	**9,689,165**	19,200,544	15,836,701
Interbank loans receivables	**3,451,543**	–	223,600	**2,958,465**	–	223,600
	₱118,758,817	₱118,939,094	₱95,962,130	**₱108,535,506**	₱106,257,051	₱85,899,298

OPERATING CASH FLOWS FROM INTEREST AND DIVIDENDS

	Consolidated			Parent Company		
	As of December 31					January 1
	2016	2015	2014	**2016**	2015 (As restated – Note 2)	2014 (As restated – Note 2)
Interest paid	**₱5,028,667**	₱4,240,401	₱4,304,420	**₱3,812,560**	₱3,020,972	₱3,159,848
Interest received	**21,498,837**	18,932,577	18,059,567	**17,273,294**	15,163,965	14,523,547

See accompanying Notes to Financial Statements.

1. **Corporate Information**

China Banking Corporation (the Parent Company) is a publicly listed commercial bank incorporated in the Philippines. The Parent Company acquired its universal banking license in 1991. It provides expanded commercial banking products and services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury products, trust products, foreign exchange, corporate finance and other investment banking services through a network of 391 and 352 local branches as of December 31, 2016 and 2015, respectively.

The Parent Company acquired its original Certification of Incorporation issued by the Securities and Exchange Commission (SEC) on July 20, 1920. On December 4, 1963, the Board of Directors (BOD) of the Parent Company approved the Amended Articles of Incorporation to extend the corporate term of the Parent Company for another 50 years or until July 20, 2020, which was confirmed by the stockholders on December 23, 1963, and approved by the SEC on October 5, 1964. On March 2, 2016, the BOD approved the amendment of the Third Article of the Parent Company's Articles of Incorporation, to further extend the corporate term for another 50 years from and after July 20, 2020, the expiry date of its extended term. The approval was ratified by the stockholders during their scheduled annual meeting on May 5, 2016. On November 7, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation, amending the Third Article thereof to extend the term of corporate existence of the Parent Company.

The Parent Company has the following subsidiaries:

Subsidiary	Effective Percentages of Ownership 2016	2015	Country of Incorporation	Principal Activities
Chinabank Insurance Brokers, Inc. (CIBI)	**100.00%**	100.00%	Philippines	Insurance brokerage
CBC Properties and Computer Center, Inc. (CBC-PCCI)	**100.00%**	100.00%	Philippines	Computer services
CBC Forex Corporation*	–	100.00%	Philippines	Foreign exchange
China Bank Savings, Inc. (CBSI)	**98.29%**	98.07%	Philippines	Retail and consumer banking
China Bank Capital Corporation (CBCC)	**100.00%**	100.00%	Philippines	Investment house
CBC Assets One, Inc.**	**100.00%**	–	Philippines	Special purpose corporation

** Liquidated on December 19, 2016*
***Established in 2016, 100% owned through CBCC*

On May 19, 2016, the BOD of CBCC approved the acquisition of ATC Securities, Inc. (ASI). On June 29, 2016, CBCC and the stockholders of ASI signed the Share Purchase Agreement (SPA) covering the purchase of CBCC of the 100.00% shares of ASI. The stock brokerage house shall be known as China Bank Securities Corporation. On the same date, 10% of the purchase price has been paid. On February 22, 2017, the Philippine Stock Exchange approved the transfer of shares of ASI to CBCC pursuant to Article III, Section 4 of the Rules Governing Trading Rights and Trading Participants. With the regulatory approval, the Group obtained control of ASI effective February 22, 2017.

The Parent Company has no ultimate parent company. SM Investments Corporation, its significant investor, has effective ownership in the Parent Company of 17.21% and 19.90% as of December 31, 2016 and 2015, respectively.

The Parent Company's principal place of business is at 8745 Paseo de Roxas cor. Villar St., Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group").

The accompanying financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets. The financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand peso except when otherwise indicated.

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements of 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 the Parent Company's subsidiaries is the Philippine peso.

Statement of Compliance
The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The balance sheets of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Group and the Parent Company assess that they have currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group, the Parent Company and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and the Parent Company.

Basis of Consolidation and Investments in Subsidiaries
The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company.

The Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the related OCI recorded in equity and recycle the same to profit or loss or surplus
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes the remaining difference in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be recognized if the Group had directly disposed of the related assets or liabilities

Non-Controlling Interest
Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interest is presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2016. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

- *New and Amended Standards*
  - Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28, *Investment in Associates and Joint Ventures* - Investment Entities: Applying the Consolidation Exception
  - Amendments to PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations
  - Amendments to PAS 1, *Presentation of Financial Statements* - Disclosure Initiative
  - PFRS 14, *Regulatory Deferral Accounts*
  - Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants*
  - Amendments to PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Method of Depreciation and Amortization*

- *Annual Improvements to PFRSs (2012 – 2014 Cycle)*
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*
  - PAS 34, *Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'*

On January 1, 2016, the Group adopted the amendments to PAS 27, *Separate Financial Statements* – Equity Method in Separate Financial Statements (Amendments). The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Parent Company elected to use the equity method in its separate financial statements in line with BSP Circular 910, issued in April 22, 2016, which provides guidance for banks on financial reporting requirements. The effects of the adoption of the amended PAS 27 are detailed below:

	Parent Company		
	As previously reported	Restatement adjustments	As restated
Balance sheets			
December 31, 2015			
Asset			
Investment in subsidiaries	₱10,019,471	₱(878,294)	₱9,141,177
Investment in associate	166,273	205,126	371,399
Equity			
Surplus	34,219,656	(418,908)	33,800,748
Surplus reserves	827,231	1,175	828,406
Net unrealized losses on AFS financial assets	(979,614)	(146,466)	(1,126,080)
Remeasurement gain on defined benefit asset	293,771	(110,616)	183,155
Cumulative translation adjustment	(36,281)	1,647	(34,634)

	Parent Company		
	As previously reported	Restatement adjustments	As restated
January 1, 2015			
Asset			
Investment in subsidiaries	₱6,016,950	₱(619,548)	₱5,397,402
Investment in associate	166,273	366,416	532,689
Equity			
Surplus	31,489,977	(177,939)	31,312,038
Surplus reserves	800,006	–	800,006
Net unrealized gains (losses) on AFS	114,499	8,421	122,920
Net unrealized losses on defined benefit financial asset	283,741	(84,589)	199,152
Cumulative translation adjustment	(21,367)	975	(20,392)
Statements of income			
For the year ended December 31, 2015			
Share in net losses of subsidiaries	₱–	₱(201,900)	₱(201,900)
Share in net losses of an associate	–	(37,893)	(37,893)
For the year ended December 31, 2014			
Share in net losses of subsidiaries	–	(369,126)	(369,126)
Share in net losses of an associate	–	(912)	(912)
Statements of comprehensive income			
For the year ended December 31, 2015			
Share in net losses of subsidiaries	₱–	₱(201,900)	₱(201,900)
Share in net losses of an associate	–	(37,893)	(37,893)
Share in changes in other comprehensive income of subsidiaries	–	(126,068)	(126,068)
Share in changes in net unrealized gain on available-for-sale financial assets of an associate	–	(129,367)	(129,367)
For the year ended December 31, 2014			
Share in net losses of subsidiaries	–	(369,126)	(369,126)
Share in net losses of an associate	–	(912)	(912)
Share in changes in other comprehensive income of subsidiaries	–	(69,223)	(69,223)
Share in changes in net unrealized gain on available-for-sale financial assets of an associate	–	(5,970)	(5,970)

Significant Accounting Policies

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional currency.

Transactions and balances

The books of accounts of the RBU are maintained in Philippine peso, the RBU’s functional currency, while those of the FCDU are maintained in United States (US) dollars (USD), the FCDU’s functional currency. 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 end of the year, and foreign currency-denominated income and expenses, at the exchange rates on transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities 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 in a foreign currency 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 are translated into the Parent Company's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the reporting date, and its income and expenses are translated at the PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance or transfer of the FCDU income to RBU, the related exchange difference arising from translation lodged under 'Cumulative translation adjustment' is recognized in the statement of income of the RBU books.

Fair Value Measurement
The Group measures financial instruments, such as financial instruments at FVPL and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 5.

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and interbank loans receivables that are convertible to known amounts of cash which have original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents wherein withdrawals can be made to meet the Group's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as AFS financial assets. Derivatives are recognized on a trade date basis. Deposits, amounts due to banks and customers loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'Day 1' difference
Where the transaction price in a non-active market is different with 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 the 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.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading purposes, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments.

Financial instruments held for trading
Financial instruments held for trading (HFT) include government debt securities and quoted equity securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned or incurred on financial instruments held for trading is reported in the statement of income under 'Interest income' (for financial assets) and 'Interest expense' (for financial liabilities).

Financial instruments designated at FVPL
Financial assets and financial liabilities are designated as at FVPL by management on initial recognition when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both 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.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value are recognized in 'Trading and securities gain - net' in the statement of income. Interest earned or incurred is reported in the statement of income under 'Interest income' or 'Interest expense', respectively, while dividend income is reported in the statement of income under 'Miscellaneous income' when the right to receive payment has been established.

Derivatives recorded at FVPL
The Parent Company is a party to derivative instruments, particularly, forward exchange contracts, interest rate swaps (IRS) and warrants. These contracts are entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange risk, and interest rate risk as well as for trading purposes, but are not designated as hedges. Such derivative financial instruments are stated at fair value through profit or loss.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income under 'Foreign exchange gain (loss) - net' for forward exchange contracts and 'Trading and securities gain-net' for IRS and warrants.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for at FVPL.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that would otherwise be required.

Held-to-maturity financial assets
HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group would sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of translation of foreign currency-denominated HTM financial assets are recognized in the statement of income.

Loans and receivable
This accounting policy relates to the balance sheet captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivables', 'Loans and receivables', and 'Accrued interest receivable'. It also applies to accounts receivable and other financial instruments shown under 'Other assets'. These are financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as FVPL;
- those that the Group, upon initial recognition, designates as AFS; and
- those for which the Group may not cover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included under 'Interest income' in the statement of income. The losses arising from impairment are recognized under 'Provision for impairment and credit losses' in the statement of income.

Available-for-sale financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. They are purchased and

held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of translation of foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are reported as 'Net unrealized gains (losses) on AFS financial assets' under OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on holding AFS debt securities are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity instruments are recognized in the statement of income as 'Miscellaneous income' when the right to the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Other financial liabilities
These are issued financial instruments or their components which are not designated as at FVPL and 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 its 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.

After initial measurement, other financial liabilities not qualified and not designated as at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the balance sheet captions 'Deposit liabilities', 'Bills payable', 'Manager's checks', and financial liabilities presented under 'Accrued interest and other expenses' and 'Other liabilities'.

Reclassification of Financial Assets
The Group may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, Loans and Receivables or HTM financial assets categories. The Group may also reclassify, in certain circumstances, financial instruments out of the AFS financial assets to loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

The Group may reclassify a non-derivative trading asset out of HFT investments and into the Loans and Receivable category if it meets the definition of loans and receivables, the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity and only in rare circumstances. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired then the amount recorded in OCI is recycled to the statement of income. Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the FVPL category after initial recognition. An analysis of reclassified financial assets is disclosed in Note 8.

Derecognition of Financial Assets and 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
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred 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 of 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 the 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.

Impairment of Financial Assets

The Group assesses at each reporting 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.

Financial assets carried at amortized cost
For financial assets carried 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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 EIR.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, 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 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. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics 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 credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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. If a future write-off is later recovered, the recovery is credited to 'Miscellaneous income'.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that

is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in subsequent years, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered 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 subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Investment in Associates
Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated and parent company financial statements, investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits or losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Dividends earned on this investment are recognized in the Parent Company's statement of income as a reduction from the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Investment in Subsidiaries
In the parent company financial statements, investment in subsidiaries is accounted for under the equity method of accounting similar to the investment in associates.

Business Combinations and Goodwill
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 measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree' s identifiable net assets. Acquisition costs incurred are charged to profit or loss.

When the Group acquires a business, it assesses the financial assets and 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 PAS 39, either in profit or loss or as a charge to OCI. 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 fair value 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 profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment identified for segment reporting purposes.

Where goodwill forms part of a CGU (or group of CGUs) 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.

Cash Dividend and Non-cash Distribution to Equity Holders of the Parent

The Company recognizes a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorized and the distribution is no longer at the discretion of the Company. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the statement of income.

Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment in value while depreciable properties such as buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the bank premises, furniture, fixtures and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs.

Construction-in-progress is stated at cost less any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Depreciation and amortization is calculated using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

	EUL
Buildings	50 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	Shorter of 6 years or the related lease terms

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment and leasehold improvements.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties
Investment properties include real properties acquired in settlement of loans and receivables which are measured initially at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statement of income. Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value except for land which is stated at cost less impairment in value.

Expenditures incurred after the investment properties have been put into operation, 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 EUL of the building and improvement components of investment properties which ranged from 10 to 33 years from the time of acquisition of the investment properties.

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 derecognition of an investment property are recognized as 'Gain on sale of investment properties' in the statement of income in the year of derecognition.

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.

Intangible Assets
Intangible assets include software cost and branch licenses resulting from the Parent Company's acquisition of CBSI, Unity Bank and PDB (Notes 10 and 13).

Software costs
Costs related to software purchased by the Group for use in operations are amortized on a straight-line basis over 3 to 10 years. The amortization method and useful life are reviewed periodically to ensure that the method and period of amortization are consistent with the expected pattern of economic benefits embodied in the asset.

Branch licenses
The branch licenses are initially measured at fair value as of the date of acquisition and are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group.

Such intangible assets are not amortized, instead they are tested for impairment annually either individually or at the CGU level. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Gains and losses arising from 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 earnings when the asset is derecognized.

Impairment of Nonfinancial Assets
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (e.g., investment in associates, investment properties, bank premises, furniture, fixtures and equipment, goodwill and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises.

For nonfinancial assets, excluding goodwill and branch licenses, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed, except for goodwill, only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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; or
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; or
(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 a 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 and included in 'Occupancy cost' in the statement of income.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Capital Stock

Capital stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the balance sheet. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition

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

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 instruments classified as FVPL and AFS financial assets, interest income is recorded at EIR, 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), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in 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 EIR applied to the new carrying amount.

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 two 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 that are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees. Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. If the commitment expires without the Group making the loan, the commitment fees are recognized as other income on expiry.

b. *Fee income from providing transactions services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - 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 EIR as for the other participants.

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

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

Trading and securities gain
This represents results arising from trading activities including all gains and losses from changes in fair value of financial assets held for trading and designated at FVPL. It also includes gains and losses realized from sale of AFS financial assets.

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

Expense Recognition

Expense is recognized when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

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

Other expenses

Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Group. Expenses are recognized when incurred.

Retirement Benefits

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 and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. 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:

(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) 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 profit or loss. 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 Philippine 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 profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements 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 Parent Company, nor can they be paid directly to the Parent Company. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the 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 Parent Company'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. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to 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 and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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 but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes
Current tax
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 as of the reporting date.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting 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. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from 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.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates.

The carrying amount of deferred tax assets is reviewed at each reporting 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 reporting date.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

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

The Parent Company has no outstanding dilutive potential common shares.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

Segment Reporting
The Group’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 30. The Group’s revenue producing assets are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

Events after the Reporting Period
Any post year-end events that provide additional information about the Group's position at the reporting date (adjusting event) are reflected in the Group's financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but Not Yet Effective

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 financial statements of the Group and the Parent Company.

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.

These amendments are not expected to have any impact on the Group.

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.

The above amendments have no impact on the Group's financial statements.

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.

These amendments are not expected to have any impact on the Group.

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 and application of hedge accounting. The adoption will also have an effect on the amount of its credit losses.

The Group is currently assessing the impact of adopting this standard.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 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 PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of adopting this standard.

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.

The Group is currently assessing the impact of adopting this standard.

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.

The Group is currently assessing the impact of adopting this standard.

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.

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 this standard.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance 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 at reporting date. 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 they 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. *Fair value of financial instruments*
   The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

   Where the fair values of financial assets and financial liabilities recorded on the balance sheet or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches that include the use of mathematical models. All financial models are certified before they are used and are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, the financial 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 (Note 5).

b. *HTM financial assets*
   The classification to HTM financial assets requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

   Details of AFS financial assets reclassified in HTM are disclosed in Note 8.

c. *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 counsel 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 the financial statements. 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.

Estimates

a. *Credit losses on loans and receivables*
The Group reviews its loans and receivables at each reporting date to assess whether an allowance for credit losses should be recorded in the balance sheet and any changes thereto 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 level of allowance required. Such estimates are based on assumptions about a number of factors. Actual results may also 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 assessment on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. The resulting collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Notes 9 and 15.

b. *Impairment of HTM and AFS debt investments*
The Group determines that AFS debt investments are impaired based on the same criteria as loans and receivables.

As of December 31, 2016 and 2015, HTM and AFS debt investments were unimpaired. The carrying values of HTM and AFS debt investments are disclosed in Note 8.

c. *Impairment on investments in subsidiaries and associates and other nonfinancial assets*
The Parent Company assesses impairment on its investments in subsidiaries and associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary operates.

The Group also assesses impairment on its nonfinancial assets (e.g., investment properties and bank premises, furniture, fixtures and equipment) and considers the following impairment indicators:

- significant underperformance relative to expected 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Group's investments in subsidiaries and associate and other nonfinancial assets are disclosed in Notes 10, 11 and 12, respectively.

d. *Impairment of goodwill and branch licenses*
The Group conducts an annual review for any impairment in the value of goodwill and branch licenses. Goodwill and branch licenses are written down for impairment where the recoverable value is insufficient to support the carrying value. The recoverable amount of goodwill and branch licenses is the higher between fair value less costs of disposal (FVLCD) and its value-in-use (VIU). FVLCD of branch licenses is based on the special licensing fee of BSP on branches operating on identified restricted areas. For VIU, the Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate is derived from the average increase in annual income of the CGUs during the last 5 years. The recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Key assumptions in VIUcalculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of the Group's goodwill and branch licenses are disclosed in Note 13.

e. *Net plan assets and retirement expense*
The determination of the Group's net plan assets and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary rates.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. Refer to Note 23 for the details on the assumptions used in the calculation.

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 23.

f. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management discretion is required to determine the amount of deferred tax assets that can be recognized, based on the forecasted level of future taxable profits and the related future tax planning strategies.

The Group believes it will be able to generate sufficient taxable income in the future to utilize its recorded deferred tax assets. Taxable income is sourced mainly from interest income from lending activities and earnings from service charge, fees, commissions and trust activities.

The recognized and unrecognized deferred tax assets are disclosed in Note 26.

4. Financial Instrument Categories

The following table presents the total carrying amount of the Group's and the Parent Company's financial instruments per category:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial assets				
Cash and other cash items	**₱12,010,543**	₱11,377,101	**₱10,580,748**	₱10,052,891
Financial assets at FVPL	**7,703,899**	6,244,593	**7,232,882**	5,465,417
AFS financial assets	**33,873,723**	48,829,233	**31,153,750**	46,834,199
HTM financial assets	**57,404,800**	16,136,147	**54,069,021**	13,945,645
Loans and receivables:				
Due from BSP	**91,964,495**	86,318,501	**85,307,128**	77,003,616
Due from other banks	**11,332,236**	21,243,492	**9,689,165**	19,200,544
Interbank loans receivables	**3,451,543**	–	**2,958,465**	–
Loans and receivables	**386,827,300**	309,761,777	**329,069,859**	259,645,008
Accrued interest receivable	**3,014,529**	2,621,737	**2,666,353**	2,201,247
Other assets	**4,933,768**	4,235,672	**2,990,134**	2,693,764
	501,523,871	424,181,179	**432,681,104**	360,744,179
Total financial assets	**₱612,516,836**	₱506,768,253	**₱535,717,505**	₱437,042,331

*Other assets include accounts receivables, sales contract receivable, returned checks and other cash items and miscellaneous financial assets (Note 14).

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities				
Other financial liabilities:				
Deposit liabilities	**₱541,583,018**	₱439,265,686	**₱470,961,991**	₱373,603,416
Bills payable	**16,954,998**	19,085,180	**16,954,998**	18,422,650
Manager's checks	**2,029,778**	1,456,498	**1,445,585**	741,479
Accrued interest and other expenses*	**870,204**	670,265	**577,550**	355,436
Other liabilities**	**5,238,408**	4,404,342	**4,089,817**	3,337,858
	566,676,406	464,881,971	**494,029,941**	396,460,839
Financial liabilities at FVPL:				
Derivative liabilities	**243,198**	66,373	**243,198**	66,373
Total financial liabilities	**₱566,919,604**	₱464,948,344	**₱494,273,139**	₱396,527,212

*Accrued interest and other expenses exclude accrued payable for employee benefits, accrued lease payable and accrued taxes and other licenses (Note 18).
**Other liabilities exclude withholding taxes payable and retirement liabilities (Note 19).

5. **Fair Value Measurement**

The Group has assets and liabilities in the consolidated and Parent Company balance sheets that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet at the end of each financial reporting period. These include financial assets and liabilities at FVPL and AFS financial assets. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet in particular circumstances. For example, PFRS 5 requires an entity to measure an asset held for sale at the lower of its carrying amount and fair value less costs to sell. Since the asset's fair value less costs to sell is only recognized in the balance sheet when it is lower than its carrying amount, that fair value measurement is non-recurring.

As of December 31, 2016 and 2015, except for the following financial instruments, the carrying values of the Group's financial assets and liabilities as reflected in the balance sheets and related notes approximate their respective fair values:

	Consolidated			
	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
HTM financial assets (Note 8)				
Government bonds	**₱42,638,409**	**₱40,492,328**	₱13,162,777	₱14,273,659
Private bonds	**14,766,391**	**14,581,086**	2,973,370	3,324,907
Loans and receivables (Note 9)				
Corporate and commercial loans	**315,140,091**	**294,494,449**	250,661,528	255,872,291
Consumer loans	**58,528,805**	**53,251,627**	46,421,426	53,331,599
Trade-related loans	**12,767,908**	**12,945,460**	12,360,222	13,564,618
Others	**390,496**	**309,048**	318,601	293,602
Sales contracts receivable (Note 14)	**893,084**	**876,406**	967,329	974,123
Financial Liabilities				
Deposit liabilities	**541,583,018**	**534,102,368**	439,265,686	429,639,806
Bills payable	**16,954,998**	**16,409,581**	19,085,180	18,993,875

	Parent Company			
	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
HTM financial assets (Note 8)				
Government bonds	**₱39,952,630**	**₱37,832,994**	₱11,422,275	₱12,532,769
Private bonds	**14,116,391**	**13,939,793**	2,523,370	2,877,180
Loans and receivables (Note 9)				
Corporate and commercial loans	**283,740,901**	**264,258,587**	220,451,670	223,257,420
Consumer loans	**34,149,927**	**29,357,086**	28,364,417	30,991,571
Trade-related loans	**11,110,851**	**11,289,013**	10,757,421	11,559,856
Others	**68,180**	**79,805**	71,500	74,319
Sales contracts receivable (Note 14)	**224,149**	**267,688**	257,473	264,268
Financial Liabilities				
Deposit liabilities	**470,961,992**	**462,544,056**	373,603,416	363,221,514
Bills payable	**16,954,998**	**16,409,581**	18,422,650	18,330,913

The methods and assumptions used by the Group and Parent Company in estimating the fair values of the financial instruments follow:

Cash and other cash items, due from BSP and other banks, interbank loans receivables and accrued interest receivable - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

Loans and receivables and sales contracts receivable (SCR) included in other assets - Fair values of loans and receivables and SCR are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, returned checks and other cash items (RCOCI) and other financial assets included in other assets - Quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Group's total portfolio of securities.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices provided by independent parties or accepted valuation models (either based on discounted cash flow techniques or option pricing models, as applicable).

Deposit liabilities (time, demand and savings deposits) - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bills payable - Fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued.

Manager's checks and accrued interest and other expenses - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other liabilities - Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Group's total portfolio.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: inputs that are not based on observable market data or unobservable inputs.

As of December 31, 2016 and 2015, the fair value hierarchy of the Group's and the Parent Company's assets and liabilities are presented below:

	Consolidated			
	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**₱2,322,038**	**₱82,011**	**₱–**	**₱2,404,049**
Treasury notes	**307,455**	**724,220**	–	**1,031,675**
Treasury bills	–	**994,203**	–	**994,203**
Private bonds	**594,798**	–	–	**594,798**
Financial assets designated at FVPL	**2,462,886**	–	–	**2,462,886**
Derivative assets	–	**216,288**	–	**216,288**
AFS financial assets				
Government bonds	**21,822,016**	–	–	**21,822,016**
Quoted private bonds	**4,735,050**	**6,682,562**	–	**11,417,612**
Quoted equity shares	**80,947**	–	–	**80,947**
	₱32,325,190	**₱8,699,284**	**₱–**	**₱41,540,049**
Financial liabilities at FVPL				
Derivative liabilities	–	**243,198**	–	**243,198**
	₱–	**₱243,198**	**₱–**	**₱243,198**
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	**₱40,492,328**	**₱–**	**₱–**	**₱40,492,328**
Private bonds	**14,581,086**	–	–	**14,581,086**
Loans and receivables				
Corporate and commercial loans	–	–	**294,494,449**	**294,494,449**
Consumer loans	–	–	**53,251,627**	**53,251,627**
Trade-related loans	–	–	**12,945,460**	**12,945,460**
Others	–	–	**309,048**	**309,048**
Sales contracts receivable	–	–	**876,406**	**876,406**
Investment properties[(b)]				
Land	–	–	**6,763,387**	**6,763,387**
Buildings and improvements	–	–	**2,221,151**	**2,221,151**
	₱55,073,414	**₱–**	**₱370,861,528**	**₱425,934,942**
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	**₱–**	**₱–**	**₱534,102,368**	**₱534,102,368**
Bills payable	–	–	**16,409,581**	**16,409,581**
	₱–	**₱–**	**₱550,511,949**	**₱550,511,949**

(a) valued as of December 31, 2016
(b) valued at various dates in 2016 and 2015

	Consolidated			
	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱1,241,674	₱144,850	₱–	₱1,386,524
Treasury notes	385,269	720,983	–	1,106,252
Treasury bills papers	388	594,963	–	595,351
Private bonds	556,570	–	–	556,570
Financial assets designated at FVPL	2,299,970	–	–	2,299,970
Derivative assets	–	299,926	–	299,926
AFS financial assets				
Government bonds	29,258,609	10,934,809	–	40,193,418
Quoted private bonds	8,213,921	–	–	8,213,921
Quoted equity shares	111,470	–	–	111,470
	42,067,871	12,695,531	–	54,763,402
Financial liabilities at FVPL				
Derivative liabilities	–	66,373	-	66,373
	₱–	₱66,373	₱–	₱66,373

	Consolidated			
	2015			
	Level 1	Level 2	Level 3	Total
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	₱14,273,659	₱–	₱–	14,273,659₱
Private bonds	3,324,907	–	–	3,324,907
Loans and receivables				
Corporate and commercial loans	–	–	255,872,291	255,872,291
Consumer loans	–	–	53,331,599	53,331,599
Trade-related loans	–	–	13,564,618	13,564,618
Others	–	–	293,602	293,602
Sales contracts receivable	–	–	974,123	974,123
Investment properties[(b)]	–	–	–	–
Land	–	–	7,117,231	7,117,231
Buildings and improvements	–	–	2,401,016	2,401,016
	₱17,598,566	₱-	₱333,554,480	₱351,153,046
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	₱–	₱–	₱429,639,806	₱429,639,806
Bills payable	–	–	18,993,875	18,993,875
	₱–	₱–	₱448,633,681	₱448,633,681

(a) valued as of December 31, 2015
(b) valued at various dates in 2015 and 2014

	Parent Company			
	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**₱2,158,476**	**₱82,012**	**₱–**	**₱2,240,488**
Treasury notes	**–**	**724,219**	**–**	**724,219**
Treasury bills	**–**	**994,203**	**–**	**994,203**
Private bonds	**594,798**	**–**	**–**	**594,798**
Financial assets designated at FVPL	**2,462,886**	**–**	**–**	**2,462,886**
Derivative assets	**–**	**216,288**	**–**	**216,288**
AFS financial assets				
Government bonds	**20,561,662**	**–**	**–**	**20,561,662**
Quoted private bonds	**3,809,166**	**6,682,562**	**–**	**10,157,258**
Quoted equity shares	**80,947**	**–**	**–**	**80,947**
	29,667,935	**8,699,284**	**–**	**38,032,749**
Financial liabilities at FVPL				
Derivative liabilities	**–**	**243,198**	**–**	**243,198**
	₱–	**₱ 243,198**	**₱–**	**₱ 243,198**
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	**₱ 37,832,994**	**₱–**	**₱–**	**₱ 37,832,994**
Private bonds	**13,939,793**	**–**	**–**	**13,939,793**
Loans and receivables				
Corporate and commercial loans	**–**	**–**	**264,258,587**	**264,258,587**
Consumer loans	**–**	**–**	**29,357,086**	**29,357,086**
Trade-related loans	**–**	**–**	**11,289,013**	**11,289,013**
Others	**–**	**–**	**79,805**	**79,805**
Sales contracts receivable	**–**	**–**	**267,688**	**267,688**
Investment properties[(b)]				
Land	**–**	**–**	**4,526,165**	**4,526,165**
Buildings and improvements	**–**	**–**	**1,074,228**	**1,074,228**
	₱ 51,772,787	**₱–**	**₱ 310,852,572**	**₱ 362,625,359**
Fair values of liabilities carried at amortized cost				
Deposit liabilities	**₱–**	**₱–**	**₱ 462,544,056**	**₱ 462,544,056**
Bills payable	**–**	**–**	**16,409,581**	**16,409,581**
	₱–	**₱–**	**₱ 478,953,637**	**₱ 478,953,637**

(a) valued as of December 31, 2016
(b) valued at various dates in 2016 and 2015

	Parent Company			
	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱847,767	₱144,850	₱–	₱992,617
Treasury notes	–	720,983	–	720,983
Treasury bills	388	594,963	–	595,351
Private bonds	556,570	–	–	556,570
Financial assets designated at FVPL	2,299,970	–	–	2,299,970
Derivative assets	–	299,926	–	299,926
AFS financial assets				
Government bonds	27,728,240	10,934,809	–	38,663,049
Quoted private bonds	7,766,369	–	–	7,766,369
Quoted equity shares	111,470	–	–	111,470
	39,310,774	12,695,531	–	52,006,305
Financial liabilities at FVPL				
Derivative liabilities	–	66,373	–	66,373
	₱–	₱66,373	₱–	₱66,373
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	₱12,532,769	₱–	₱–	₱12,532,769
Private bonds	2,877,180	–	–	2,877,180
Loans and receivables				
Corporate and commercial loans	–	–	223,257,420	223,257,420
Consumer loans	–	–	30,991,571	30,991,571
Trade-related loans	–	–	11,559,856	11,559,856
Others	–	–	74,319	74,319
Sales contracts receivable	–	–	264,268	264,268
Investment properties[(b)]				
Land	–	–	4,427,761	4,427,761
Buildings and improvements	–	–	1,217,191	1,217,191
	₱15,409,949	₱–	₱271,792,386	₱287,202,335
Fair values of liabilities carried at amortized cost				
Deposit liabilities	₱–	₱–	₱363,211,514	₱363,211,514
Bills payable	–	–	18,330,913	18,330,913
	₱–	₱–	₱381,542,427	₱381,542,427

(a) valued as of December 31, 2015
(b) valued at various dates in 2015 and 2014

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 in 2016 and 2015.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities - interpolated rates based on market rates of benchmark securities as of reporting date.

Private bonds and commercial papers - quoted market price of comparable investments with credit risk premium that is insignificant to the entire fair value measurement.

Derivative assets and liabilities - fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the reporting date, taking into account the remaining term to maturity of the derivative assets and liabilities.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The fair values of the Group's and Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group and the Parent Company:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction Cost New

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and the Parent Company's investment properties are as follows:

Valuation Techniques

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

Significant Unobservable Inputs

Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a Main Road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a Main Road are superior to properties located along a secondary road.

Significant Unobservable Inputs

Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Financial Risk Management Objectives and Policies

The Group's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Group through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits and thresholds, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Group has placed due importance on expanding and strengthening its risk management process and considers it as a vital component to the Group's continuing profitability and financial stability. Central to the Group's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Group faces are: credit risk, market risk (i.e. interest rate risk, foreign currency risk and equity price risk) and liquidity risk. The Group's risk management objective is primarily focused on controlling and mitigating these risks. The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries, particularly CBS, have their own risk management processes but are structured similar to that of the Parent Company. To a large extent, the respective risk management programs and objectives are the same across the Group. The gravity of the risks, the magnitude of the financial instruments involved, and regulatory requirements are primary considerations to the scope and extent of the risk management processes put in place for the subsidiaries.

Risk Management Structure

The BOD of the Parent Company is ultimately responsible for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BODs. The BOD of the Parent Company created a separate board-level independent committee with explicit authority and responsibility for managing and monitoring risks.

The BOD has delegated to the Risk Management Committee (RMC) the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits and thresholds. The RMC is composed of four members of the BOD.

The Risk Management Group (RMG) is the direct support of the RMC in the day-to-day risk management and the implementation of the risk management strategies approved by the RMC. The implementation cuts across all departments of the Parent Company and involves all of the Parent Company's financial instruments, whether "on-books" or "off-books." The RMG is likewise responsible for monitoring the implementation of specific risk control procedures and enforcing compliance thereto. The RMG is also directly involved in the day-to-day risk measurement and monitoring to make sure that the Parent Company, in its transactions and dealings, engages only in acceptable and manageable financial risks. The RMG also ensures that risk measurements are accurately and completely captured on a timely basis in the management reporting system of the Parent Company. The RMG regularly reports the results of the risk measurements to the RMC. The RMG is headed by the Chief Risk Officer (CRO).

Apart from RMG, each business unit has created and put in place various process controls which ensure that all the external and internal transactions and dealings of the unit are in compliance with the unit's risk management objectives.

The Internal Audit Division also plays a crucial role in risk management primarily because it is independent of the business units and reports exclusively to the Audit Committee which, in turn, is comprised of independent directors. The Internal Audit Division focuses on ensuring that adequate controls are in place and on monitoring compliance to controls. The regular audit covers all processes and controls, including those under the risk management framework handled by the RMG. The audit of these processes and controls is undertaken at least annually. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the Audit Committee.

Risk Management Reporting

The CRO and other members of the RMG report to the RMC and are a resource to the Management Committee (ManCom) on a monthly and a weekly basis, respectively. The CRO reports on key risk indicators and specific risk management issues that would need resolution from top management. This is undertaken after the risk issues and key risk indicators have been discussed with the business units concerned.

The key risk indicators were formulated on the basis of the financial risks faced by the Parent Company. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Parent Company in its products, transactions and financial structure. Among others, the report on key risk indicators includes information on the Parent Company's aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value-at-Risk (VaR) analysis, utilization of market and credit limits and thresholds, liquidity risk limits and ratios, overall loan loss provisioning and risk profile changes. Loan loss provisioning and credit limit utilization are, however, discussed in more detail in the Credit Committee. On a monthly basis, detailed reporting of single-name and sectoral concentration is included in the discussion with the RMC. On the other hand, the Chief Internal Auditor reports to the Audit Committee on a monthly basis on the results of branch or business unit audits and for the resolution of pending but important internal audit issues.

In 2016, the Asset and Liability Management (ALM) system of the Parent Company, measures and reports liquidity risk and interest rate risk was upgraded in 2016 and will include new modules for calculating Basel III's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in 2017. Similarly, the Market Risk Management System, enhances risk measurement and automates reporting of market risk metrics, has been implemented in 2016.

Risk Mitigation
The Parent Company uses derivatives to manage exposures in its financial instruments resulting from changes in interest rates and foreign currencies exposures. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for the Parent Company and its subsidiaries.

To further mitigate risks throughout its different business units, the Parent Company formulates risk management policies and continues to improve its existing policies. These policies further serve as the framework and set of guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, preventive controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff, as well as, among business units are reiterated in these policies. To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework created by the RMG are taken up and resolved in the RMC and ManCom.

Based on the approved Operational Risk Assessment Program, RMG spearheaded the bankwide (all Head Office units and branches) risk identification and self-assessment process. This would enable determination of priority risk areas, assessment of mitigating controls in place, and institutionalization of additional measures to ensure a controlled operating environment. RMG was also mandated to maintain and update the Parent Company's Centralized Loss Database wherein all reported incidents of losses shall be encoded to enable assessment of weaknesses in the processes and come up with viable improvements to avoid recurrence.

Monitoring and controlling risks are primarily performed based on various limits and thresholds established by the top management covering the Group's transactions and dealings. These limits and thresholds reflect the Group's business strategies and market environment, as well as, the levels of risks that the Group is willing to tolerate, with additional emphasis on selected industries. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Liquidity and interest rate risk exposures are measured and monitored through reports from the ALM system. The system also has a Funds Transfer Pricing module used by the Treasury Group and Corporate Planning Group.

For the measurement of market risk exposures, the Bank uses Historical Simulation VaR approach for all treasury traded instruments, including fixed income bonds, foreign exchange swaps and forwards, interest rate swaps and equity securities. Market risk exposures are measured and monitored through reports from the Market Risk Management System which has been implemented in 2016 to enhance risk measurement and automate daily reporting.

BSP issued Circular No. 639 dated January 15, 2009 which mandated the use of the Internal Capital Adequacy Assessment Process (ICAAP) by all universal and commercials banks to determine their minimum required capital relative to their business risk exposures. In this regard, the Board approved the engagement of the services of a consultant to assist in the bank-wide implementation and embedding of the ICAAP, as provided for under Pillar 2 of Basel II and BSP Circular No. 639.

On April 6, 2016, the BOD affirmed that the priority risks set in the 2009 Risk Self-assessment Survey and voting conducted among selected members of the BOD and Senior Management remain the same on the basis that there is no significant change in either the business model of the Bank or its ownership structure. In addition, the BOD also approved the CET1 ratio limit and the revised Management Action Trigger (MAT) on capital ratios, as well as the metrics for determining significant change in the balance sheet. There were no changes made in the approved trigger events for the review of Priority Risks and Capital Ratios threshold.

The Parent Company submitted its annually updated ICAAP document, in compliance with BSP requirements on March 31, 2016. The document disclosed that the Parent Company has an appropriate level of internal capital relative to the Group's risk profile.

For the ICAAP document submitted on March 31, 2016, the Parent Company retained the Pillar 1 Plus approach using the Pillar 1 capital as the baseline. The process of allocating capital for all types of risks above the Pillar 1 capital levels was enhanced to include quantification of capital buffer for Pillar 2 risks under normal business cycle/condition, in addition to the quantification based on the results of the Integrated Stress Test (IST). The adoption of the IST allows the Parent Company to quantify its overall vulnerability to market shocks and operational losses in a collective manner driven by events rather than in silo. The capital assessment in the document discloses that the Group and the Parent Company has appropriate and sufficient level of internal capital.

Credit Risk

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items
Credit risk is the risk of financial loss on account of a counterparty to a financial product failing to honor its obligation. The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) or enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

The Group established risk limits and thresholds for purposes of monitoring and managing credit risk from individual counterparties and/or groups of counterparties, as well as industry divisions. It also conducts periodical assessment of the creditworthiness of its counterparties. In addition, the Group obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

In compliance with BSP requirements, the Group established an internal Credit Risk Rating System (CRRS) for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making. The CRRS covers corporate borrowers with total assets, total facilities, or total credit exposures amounting to ₱15.00 million and above.

Further, the CRRS was designed within the technical requirements defined under BSP Circular No. 439. It has two components, namely: a) Borrower Risk Rating which provides an assessment of the creditworthiness of the borrower, without considering the proposed facility and security arrangements, and b) Loan Exposure Rating which provides an assessment of the proposed facilities as mitigated or enhanced by security arrangements. The CRRS rating scale consists of ten grades, six of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines.

On March 5, 2014, the Parent Company approved the engagement of a third-party consultant, Moody's Analytics, for the quantitative and qualitative validation of the internal CRRS. The validation engagement was completed in December 2014 followed by the model recalibration, closing the project in December 2015.

Aside from the internal CRRS, the Parent Company launched in 2011 the Borrower Credit Score (BCS), a credit scoring system designed for retail small and medium entities and individual loan accounts. In 2016, RMG completed the statistical validation of the BCS using the same methodology applied to the validation of the corporate risk rating model. The validation process was conducted with the assistance of Teradata which provided the analytics platform, tools and technical guidance for both credit model performance assessment and recalibration.

Furthermore, RMG also developed a Sovereign Risk Rating Model, which provided the tool for the Bank to assess the strength of the country rated in reference to its economic fundamentals, fiscal policy, institutional strength, and vulnerability to extreme events. The Model was approved by the Board on September 7, 2016.

The Group has not yet applied the above models for its loan loss provisioning.

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

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of the Group's and Parent Company's assets and liabilities, and credit commitment items (Note 29) by geographic region as of December 31, 2016 and 2015 (in millions) follows:

	Consolidated					
	2016			2015		
	Assets	**Liabilities**	**Commitment**	Assets	Liabilities	Commitment
Geographic Region						
Philippines	**₱557,597**	**₱549,944**	**₱161,187**	₱476,778	₱450,788	₱154,944
Asia	**8,065**	**13,200**	**3,629**	5,896	14,038	2,956
Europe	**3,608**	**1,050**	**808**	598	16	498
United States	**33,336**	**1,240**	**6,287**	21,390	87	3,174
Others	**9,911**	**1,486**	**14**	2,106	19	19
	₱612,517	**₱566,920**	**₱171,925**	₱506,768	₱464,948	₱161,591

	Parent Company					
	2016			2015		
	Assets	**Liabilities**	**Commitment**	Assets	Liabilities	Commitment
Geographic Region						
Philippines	**₱480,892**	**₱477,297**	**₱155,828**	₱407,221	₱382,367	₱145,950
Asia	**8,065**	**13,200**	**3,629**	5,896	14,038	2,956
Europe	**3,608**	**1,050**	**808**	598	16	498
United States	**33,242**	**1,240**	**6,287**	21,221	87	3,174
Others	**9,911**	**1,486**	**14**	2,106	19	20
	₱535,718	**₱494,273**	**₱166,566**	₱437,042	₱396,527	₱152,598

Information on credit concentration as to industry of loans and receivables is presented in Note 9 to the financial statements.

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

	Consolidated		
	2016		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	**₱386,827,300**	**₱209,916,716**	**₱176,779,137**
Sales contracts receivable	**893,084**	**–**	**893,084**
	₱387,720,384	**₱209,916,716**	**₱177,672,221**

	Consolidated		
	2015		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱309,761,777	₱177,020,802	₱132,740,975
Sales contracts receivable	967,329	–	967,329
	₱310,729,106	₱177,020,802	₱133,708,304

	Parent Company		
	2016		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	**₱329,069,859**	**₱189,224,249**	**₱139,845,609**
Sales contracts receivable	**224,149**	**–**	**224,149**
	₱329,294,008	**₱189,224,249**	**₱140,069,758**

	Parent Company		
	2015		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱259,645,008	₱161,244,693	₱98,400,315
Sales contracts receivable	257,473	–	257,473
	₱259,902,481	₱161,244,693	₱98,657,788

For the Group, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱250.62 billion and ₱1.60 billion, respectively, as of December 31, 2016 and ₱149.00 billion and ₱2.70 billion, respectively, as of December 31, 2015.

For the Parent Company, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱202.74 billion and ₱1.36 billion, respectively, as of December 31, 2016 and ₱123.76 billion and ₱1.24 billion, respectively, as of December 31, 2015.

Credit risk, in respect of derivative financial products, is limited to those with positive fair values, which are included under financial assets at FVPL (Note 8). As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 29 to the financial statements.

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

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate lending and commercial lending- real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Management requests additional collateral in accordance with the underlying agreement and takes into consideration the market value of collateral during its review of the adequacy of allowance for credit losses.

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

Collaterals foreclosed in 2016 and 2015 and are still held by the Group as of December 31, 2016 and 2015 amounted to ₱835.30 million and ₱848.48 million, respectively. These collaterals comprised of real estate properties and stock securities.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using an internal credit rating system for the purpose of measuring credit risk in a consistent manner as accurately as possible. The model on risk ratings is assessed regularly because the Group uses this information as a tool for business and financial decision making. Aside from the periodic review by the Bank's Internal Audit Group, the Bank likewise engaged the services of third-party consultants in 2014, 2015, and 2016 for purposes of conducting an independent validation of the credit risk rating model.

It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks 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 attributable risk ratings are assessed and monitored regularly. The standard credit rating equivalent grades are relevant only for certain exposures in each risk rating class.

The following table shows the description of the internal CRRS grade:

CRRS Grade	Description
1	Excellent
2	Strong
3	Good
4	Satisfactory
5	Acceptable
6	Watchlist
7	Especially Mentioned
8	Substandard
9	Doubtful
10	Loss

The credit grades are defined as follows:

Excellent - This category applies to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance, and diversity. It has access to raise substantial amounts of funds through the public markets at any time. The borrower has a very strong debt service capacity and a conservative use of balance sheet leverage. The track record in profit terms is very good. The borrower is of highest quality under virtually all economic conditions.

Strong - This category applies to a borrower with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance, and diversity. Under normal market conditions, the borrower in this category has good access to public markets to raise funds. The borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is deemed very strong; the critical balance sheet ratios (vis-à-vis industry) are conservative.

Good - This category covers the smaller corporations with limited access to public capital markets or access to alternative financial markets. This access is however limited to favorable economic and/or market conditions. Typical for this type of borrower is the combination of comfortable asset protection and acceptable balance sheet structure (vis-à-vis industry). The debt service capacity, as measured based on cash flows, is strong.

Satisfactory - This category represents the borrower where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. The borrower in this category normally has limited access to public financial markets. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profits for the past fiscal year and is expected to report a profit in the current year.

Acceptable - The risk elements for the Parent Company are sufficiently pronounced, although the borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

Watchlist - This category represents the borrower for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. The borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility. It includes the borrower where the credit exposure is not a risk of loss at the moment, but the performance of the borrower has weakened, and unless present trends are reversed, could lead to losses.

Especially Mentioned - This category applies to the borrower that is characterized by a reasonable probability of default, manifested by some or all the following: (a) evidence of weakness in the borrower's financial condition or creditworthiness; (b) unacceptable risk is generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned; (c) the borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized; (d) the borrower is expected to have financial difficulties and exposure may be at risk. Closer account management attention is warranted. Concerted efforts should be made to improve lender's position (e.g., demanding additional collateral or reduction of account exposure). These potential weaknesses, if left uncorrected or unmitigated, would affect the repayment of the loan and, thus, increase credit risk to the Parent Company.

Substandard - This category represents the borrower where one or more of the following factors apply: (a) the collection of principal or interest becomes questionable regardless of scheduled payment date, by reason of adverse developments on account of a financial, managerial, economic, or political nature, or by important weaknesses in cover; (b) the probability of default is assessed at up to 50%. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the Parent Company unless given closer supervision.

Doubtful - This category includes the borrower with "non-performing loan" status or with any portion of interest and/or principal payment is in arrears for more than ninety (90) days. The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful. Doubtful loans are loans or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

Loss - This category represents the borrower whose prospect for re-establishment of creditworthiness and debt service is remote. It also applies where the Parent Company will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the borrower's business. These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

The ratings of the borrowers covered by the BCS were mapped to the abovementioned CRRS grades in accordance with the approved guidelines by the BOD.

The Group's loans and receivables from customers were classified according to credit quality as follows:

Credit Quality Rating	Criteria
Neither Past Due Nor Impaired	
High	Loans with risk rating of 1 and 2
Standard	Loans with risk rating of 3 to 5
Sub-Standard	Generally, loans with risk rating of 6 to 8
Past Due and Impaired	
Past Due but not Impaired Impaired	Those that were classified as Past Due per BSP guidelines or those that are still in current status but have objective evidence of impairment; Generally, loans with risk rating of 9 to 10

The table below shows the Group's and the Parent Company's loans and receivables, excluding other receivables (gross of allowance for impairment and credit losses and unearned discounts) as of December 31, 2016 and 2015 (in millions) classified according to credit quality:

	Consolidated						
	2016						
	Neither Past Due nor Impaired						
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Past Due But Not Impaired**	**Past Due and Impaired**	**Total**
Corporate and commercial lending	**₱51,949**	**₱194,211**	**₱63,431**	**₱2,941**	**₱1,051**	**₱6,150**	**₱319,733**
Consumer lending	**22,997**	**5,989**	**3,308**	**24,388**	**3,155**	**579**	**60,416**
Trade-related lending	**2,122**	**9,861**	**961**	**20**	**6**	**76**	**13,046**
Others	**317**	**1**	**–**	**212**	**5**	**8**	**543**
Total	**₱77,385**	**₱210,062**	**₱67,700**	**₱27,561**	**₱4,217**	**₱6,813**	**₱393,738**

	Consolidated						
	2015						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Corporate and commercial lending	₱48,206	₱136,561	₱46,151	₱17,107	₱2,022	₱5,904	₱255,951
Consumer lending	15,306	7,294	1,595	20,600	2,243	975	48,013
Trade-related lending	1,694	10,047	418	20	258	313	12,750
Others	46	–	–	261	6	8	321
Total	₱65,252	₱153,902	₱48,164	₱37,988	₱4,529	₱7,200	₱317,035

	Parent Company						
	2016						
	Neither Past Due nor Impaired						
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Past Due But Not Impaired**	**Past Due and Impaired**	**Total**
Corporate and commercial lending	**₱23,263**	**₱194,185**	**₱63,039**	**₱2,942**	**₱761**	**₱3,932**	**₱288,122**
Consumer lending	**10**	**5,968**	**3,308**	**24,388**	**1,157**	**578**	**35,409**
Trade-related lending	**453**	**9,861**	**961**	**20**	**6**	**76**	**11,377**
Others	**–**	**1**	**–**	**68**	**–**	**–**	**69**
Total	**₱23,726**	**₱210,015**	**₱67,308**	**₱27,418**	**₱1,924**	**₱4,586**	**₱334,977**

	Parent Company						
	2015						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
Corporate and commercial lending	₱23,311	₱134,385	₱45,862	₱16,927	₱1,752	₱3,268	₱225,505
Consumer lending	22	6,283	1,192	20,112	1,269	363	29,241
Trade-related lending	91	10,047	418	21	258	313	11,148
Others	–	–	–	69	2	–	71
Total	₱23,424	₱150,715	₱47,472	₱37,129	₱3,281	₱3,944	₱265,965

Depository accounts with the BSP and counterparty banks, Trading and Investment Securities
For these financial assets, outstanding exposure is rated primarily based on external risk rating (i.e. Standard and Poor's (S&P), otherwise, rating is based on risk grades by a local rating agency or included under "Unrated", when the counterparty has no available risk grade.

The external risk rating of the Group's depository accounts with the BSP and counterparty banks, trading and investment securities, is grouped as follows:

Credit Quality Rating	External Credit Risk Rating	Credit Rating Agency
High grade	AAA, AA+, AA, AA-	S&P
	Aaa, Aa1, Aa2, Aa3	Moody's
	AAA, AA+, AA, AA-	Fitch
Standard grade	A+, A, A-, BBB+, BBB, BBB-	S&P
	A1, A2, A3, Baa1, Baa2, Baa3	Moody's
	A+, A, A-, BBB+, BBB, BBB-	Fitch
Substandard grade	BB+, BB, BB-, B/B+, CCC, R, SD & D	S&P
	Ba1, Ba2, Ba3, B1, B2, R, SD & D	Moody's
	BB+, BB, BB-, B/B+, CCC, R, SD & D	Fitch

Following is the credit rating scale applicable for foreign banks, and government securities (aligned with S&P ratings):

AAA - An obligor has extremely strong capacity to meet its financial commitments.

AA - An obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors at a minimal degree.

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

BBB and below:

BBB - An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB - An obligor is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B - An obligor is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC - An obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

CC - An obligor is currently vulnerable. The rating is used when a default has not yet occurred, but expects default to be a virtual certainty, regardless of the anticipated time to default.

R - An obligor is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.

SD and D - An obligor is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms.

The table below shows the credit quality of deposits and investments as of December 31, 2016 and 2015 (in millions), based on external risk ratings (gross of allowance for credit losses).

	Consolidated			
	2016			
	High Grade	**Standard Grade**	**Substandard Grade**	**Total**
Due from BSP	**₱–**	**₱91,964**	**₱–**	**₱91,964**
Due from other banks	**1,527**	**6,569**	**875**	**8,971**
SPURA	**–**	**3,452**	**–**	**3,452**
Financial assets at FVPL	**36**	**4,622**	**237**	**4,895**
AFS financial assets	**10,119**	**13,970**	**1,593**	**25,682**
HTM financial assets	**318**	**48,513**	**3,056**	**51,887**
	₱12,000	**₱169,090**	**₱5,761**	**₱186,851**

	Consolidated			
	2015			
	High Grade	Standard Grade	Substandard Grade	Total
Due from BSP	₱–	₱86,319	₱–	₱86,319
Due from other banks	2,587	15,038	1,262	18,887
Financial assets at FVPL	102	3,169	306	3,577
AFS financial assets	1,252	35,934	4,318	41,504
HTM financial assets	–	13,507	483	13,990
	₱3,941	₱153,967	₱6,369	₱164,277

	Parent Company			
	2016			
	High Grade	**Standard Grade**	**Substandard Grade**	**Total**
Due from BSP	**₱–**	**₱85,307**	**₱–**	**₱85,307**
Due from other banks	**1,527**	**6,394**	**1,624**	**9,545**
SPURA	**–**	**2,958**	**–**	**2,958**
Financial assets at FVPL	**36**	**4,151**	**237**	**4,424**
AFS financial assets	**10,117**	**11,614**	**1,592**	**23,323**
HTM financial assets	**319**	**45,177**	**3,056**	**48,552**
	₱11,999	**₱155,601**	**₱6,509**	**₱174,109**

	Parent Company			
	2015			
	High Grade	Standard Grade	Substandard Grade	Total
Due from BSP	₱–	₱77,004	₱–	₱77,004
Due from other banks	2,489	15,038	1,553	19,080
Financial assets at FVPL	102	2,466	306	2,874
AFS financial assets	1,249	35,798	4,318	41,365
HTM financial assets	–	11,422	483	11,905
	₱3,840	₱141,728	₱6,660	₱152,228

Due from other banks and government securities
The external risk rating of the Group's depository accounts with counterparty banks, trading and investment securities, is grouped as follows (aligned with the Philippine Ratings System):

Credit Quality Rating	External Credit Risk Rating
High grade	PRSAAA, PRSAa+, PRSAa, PRSAa-
Standard grade	PRSA+, PRSA, PRSA-, PRSBaa+, PRSBaa, PRSBaa-
Substandard grade	PRSBa+, PRSBa, PRSBa-, PRSB+, PRSB, PRSB-, PRSCaa+, PRSCaa, PRSCaa-, PRSCa+, PRSCa, PRSCa-, PRSC+, PRSC, PRSC-

PRSAaa - The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

PRSAa - The obligor's capacity to meet its financial commitment on the obligation is very strong.

PRSA - With favorable investment attributes and are considered as upper-medium grade obligations. Although obligations rated 'PRSA' are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor's capacity to meet its financial commitments on the obligation is still strong.

PRSBaa - An obligation rated 'PRS Baa' exhibits adequate protection parameters. However, adverse economic conditions and changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRSBaa-rated issues may possess certain speculative characteristics.

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

PRSB - An obligation rated 'PRSB' is more vulnerable to nonpayment than obligations rated 'PRSBa', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation. The issue is characterized by high credit risk.

PRSCaa - An obligation rated 'PRSCaa' is presently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. The issue is considered to be of poor standing and is subject to very high credit risk

PRSCa - An obligation rated "PRSCa" is presently highly vulnerable to nonpayment. Likely already in or very near default with some prospect for partial recovery of principal or interest.

PRSC - An obligation is already in default with very little prospect for any recovery of principal or interest.

The table below shows the credit quality of deposits and investments, by class, as of December 31, 2016 and 2015 (in millions), based on risk grades of a local rating agency (gross of allowance for credit losses).

	Consolidated			
	2016			
	High Grade	**Standard Grade**	**Substandard Grade**	**Total**
Due from other banks	**₱145**	**₱–**	**₱–**	**₱145**
Financial assets at FVPL	**487**	**–**	**–**	**487**
AFS financial assets	**1,470**	**–**	**–**	**1,470**
HTM financial assets	**534**	**–**	**–**	**534**
Total	**₱2,636**	**₱–**	**₱–**	**₱2,636**

	Consolidated			
	2015			
	High Grade	Standard Grade	Substandard Grade	Total
Due from other banks	₱836	₱–	₱–	₱836
Financial assets at FVPL	187	–	–	187
AFS financial assets	2,160	17	–	2,177
HTM financial assets	106	–	–	106
Total	₱3,289	₱17	₱–	₱3,306

	Parent Company			
	2016			
	High Grade	**Standard Grade**	**Substandard Grade**	**Total**
Due from other banks	**₱144**	**₱-**	**₱-**	**₱144**
Financial assets at FVPL	**487**	**–**	**–**	**487**
AFS financial assets	**1,435**	**–**	**–**	**1,435**
HTM financial assets	**534**	**–**	**–**	**534**
Total	**₱2,600**	**₱–**	**₱–**	**₱2,600**

	Parent Company			
	2015			
	High Grade	Standard Grade	Substandard Grade	Total
Due from other banks	₱119	₱–	₱–	₱119
Financial assets at FVPL	111	–	–	111
AFS financial assets	320	–	–	320
Total	₱550	₱–	₱–	₱550

The table below shows the breakdown of unrated deposits and investments (gross of allowance for credit losses)as of December 31, 2016 and 2015 (in millions):

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Due from other banks	**₱2,216**	₱1,520	**₱–**	₱2
Financial assets at FVPL	**2,322**	2,481	**2,322**	2,480
AFS financial assets	**6,760**	5,187	**6,402**	5,156
HTM financial assets	**4,983**	2,040	**4,983**	2,041
Other assets*	**5,652**	4,977	**3,605**	3,320
Total	**₱21,933**	₱16,205	**₱17,312**	₱12,999

*Other assets include accounts receivables, sales contract receivable, returned checks and other cash items and miscellaneous financial assets (Note 14).

The table below shows the aging analysis of gross past due but not impaired loans and receivables that the Group and Parent Company held as of December 31, 2016 and 2015 (in millions). Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	Consolidated				
December 31, 2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables					
Corporate and commercial lending	**₱567**	**₱70**	**₱86**	**₱ 328**	**₱1051**
Consumer lending	**296**	**113**	**317**	**2,429**	**3,155**
Trade-related lending	–	–	–	**6**	**6**
Others	–	–	–	**5**	**5**
Total	**₱863**	**₱183**	**₱403**	**₱2,768**	**₱4,217**

	Consolidated				
December 31, 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and receivables					
Corporate and commercial lending	₱532	₱122	₱162	₱1,206	₱2,022
Consumer lending	350	67	107	1,719	2,243
Trade-related lending	157	–	5	96	258
Others	1	1	1	3	6
Total	₱1,040	₱190	₱275	₱3,024	₱4,529

	Parent Company				
December 31, 2016	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Loans and receivables					
Corporate and commercial lending	**₱530**	**₱69**	**₱71**	**₱ 91**	**₱761**
Consumer lending	**213**	**56**	**204**	**684**	**1,157**
Trade-related lending	–	–	–	**6**	**6**
Total	**₱743**	**₱125**	**₱275**	**₱781**	**₱1,924**

	Parent Company				
December 31, 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and receivables					
Corporate and commercial lending	₱492	₱101	₱112	₱1,047	₱1,752
Consumer lending	303	38	35	893	1,269
Trade-related lending	157	–	5	96	258
Others	1	–	–	1	2
Total	₱953	₱139	₱152	₱2,037	₱3,281

The following table presents the carrying amount of financial assets of the Group and Parent Company as of December 31, 2016 and 2015 that would have been considered past due or impaired if not renegotiated:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Loans and advances to customers				
Corporate and commercial lending	**₱773,888**	₱937,398	**₱358,760**	₱436,322
Consumer lending	**14,669**	12,020	**9,777**	7,478
Total renegotiated financial assets	**₱788,557**	₱949,418	**₱368,537**	₱443,800

Impairment assessment
The main considerations for the loan impairment assessment include whether any payment of principal or interest is overdue by more than 90 days, or there are 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: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment yet per an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Market Risk
Market risk is the risk of loss that may result from changes in the value of a financial product. The Parent Company's market risk originates from its holdings of domestic and foreign-denominated debt securities, foreign exchange instruments, equities, foreign exchange derivatives and interest rate derivatives.

The RMG of the Parent Company is responsible for assisting the RMC with its responsibility for identifying, measuring, managing and controlling market risk. Market risk management measures the Parent Company market risk exposures through the use of VaR. VaR is a statistical measure that estimates the maximum potential loss from a portfolio over a holding period, within a given confidence level.

VaR assumptions
The Parent Company calculates the Bankwide VaR in certain trading activities. The Parent Company uses the Historical Simulation Full Valuation approach to measure VaR for all treasury traded instruments, using a 99% confidence level and a 1-day holding period.

The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days. The validity of the VaR model is verified through back testing, which examines how frequently actual and hypothetical daily losses exceeds daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading positions and exposures are reviewed daily against the limits by management. Further, stress testing is performed for monitoring extreme events.

Limitations of the VaR Methodology
The VaR models are designed to measure market risk in a normal market environment using equally weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow the same 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 if changes in risk factors fail to align with the assumptions. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Group would withstand an extreme market event.

A summary of the VaR position of the trading portfolio of the Parent Company is as follows:

	Interest Rate[1]	Foreign Exchange[2]	Equity[3]	Interest Rate[4]	Interest Rate[5]
			(In Millions)		
2016					
31 December	**₱44.79**	**₱24.31**	**₱11.70**	**₱6.17**	**₱8.95**
Average daily	**52.60**	**7.79**	**18.43**	**3.72**	**1.82**
Highest	**109.59**	**29.59**	**53.39**	**10.12**	**9.17**
Lowest	**16.00**	**1.30**	**0.01**	**0.77**	**0.55**
2015					
31 December	₱29.09	₱8.15	N/A	₱3.58	₱1.14
Average daily	64.98	10.52	38.98	5.31	2.18
Highest	112.23	21.83	47.82	9.98	4.69
Lowest	29.09	3.94	1.32	2.49	1.05

[1] Interest rate VaR for debt securities (Interest rate VaR for foreign currency denominated debt securities are translated to PHP using daily closing rate)
[2] FX VaR is the bankwide foreign exchange risk
[3] No outstanding equity shares as of year-end
[4] Interest rate VaR for FX swaps and FX forwards
[5] Interest rate VaR for IRS

Interest Rate Risk
The Group's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Parent Company follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

As of December 31, 2016 and 2015, 51.89% and 58.48% of the Group's total loan portfolio, respectively, comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Group's internal cost of funds. In keeping with banking industry practice, the Group aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers.

Interest is paid on demand accounts, which constituted 25.96% and 27.61% of total deposits of the Parent Company as of December 31, 2016 and 2015, respectively.

Interest is paid on savings accounts and time deposits accounts, which constitute 28.19% and 45.85%, respectively, of total deposits of the Parent Company as of December 31, 2016, and 27.77% and 44.62%, respectively, as of December 31, 2015.

Savings account interest rates are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments, or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Group is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its AFS and FVPL portfolios. Market values of these investments are sensitive to fluctuations in interest rates.

The following table provides for the average effective interest rates of the Group and of the Parent Company as of December 31, 2016 and 2015:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Peso				
Assets				
Due from BSP	**0.39%**	0.29%	**0.30%**	0.26%
Due from banks	**0.24%**	0.80%	**0.22%**	0.25%
Investment securities*	**4.00%**	4.22%	**3.95%**	4.26%
Loans and receivables	**5.65%**	5.85%	**5.34%**	5.46%
Liabilities				
Deposit liabilities	**1.01%**	0.92%	**0.85%**	0.73%
Bills payable	**7.86%**	4.12%	**7.86%**	5.13%
USD				
Assets				
Due from banks	**0.11%**	0.12%	**0.08%**	0.04%
Investment securities*	**4.36%**	4.66%	**4.90%**	4.71%
Loans and receivables	**3.56%**	3.03%	**3.48%**	2.98%
Liabilities				
Deposit liabilities	**1.23%**	1.32%	**1.24%**	1.30%
Bills payable	**1.94%**	1.57%	**1.91%**	1.53%

* Consisting of financial assets at FVPL, AFS financial assets and HTM financial assets.

The asset-liability gap analysis method is used by the Group to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Group's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Group's balance sheet into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.

The following table sets forth the repricing gap position of the Group and Parent Company as of December 31, 2016 and 2015 (in millions):

	Consolidated			
	2016			
	Up to 3 Months	**>3 to 12 Months**	**>12 Months**	**Total**
Financial Assets				
Due from BSP	**₱91,964**	**₱–**	**₱–**	**₱91,964**
Due from other banks	**11,332**	**–**	**–**	**11,332**
Investment securities	**11,216**	**77**	**87,689**	**98,982**
Loans and receivables	**195,911**	**38,156**	**152,760**	**386,827**
Total financial assets	**310,423**	**38,233**	**240,449**	**589,105**
Financial Liabilities				
Deposit liabilities	**236,806**	**15,099**	**289,678**	**541,583**
Bills payable	**13,685**	**2,718**	**552**	**16,955**
Total financial liabilities	**250,491**	**17,817**	**290,230**	**558,538**
Repricing gap	**₱59,932**	**₱20,416**	**(₱49,781)**	**₱30,567**

	Consolidated			
	2015			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱86,319	₱–	₱–	₱86,319
Due from other banks	21,243	–	–	21,243
Investment securities	2,165	384	68,661	71,210
Loans and receivables	180,611	45,507	83,644	309,762
Total financial assets	290,338	45,891	152,305	488,534
Financial Liabilities				
Deposit liabilities	178,913	14,027	246,326	439,266
Bills payable	7,383	2,042	9,660	19,085
Total financial liabilities	186,296	16,069	255,986	458,351
Repricing gap	₱104,042	₱29,822	(₱103,681)	₱30,183

	Parent Company			
	2016			
	Up to 3 Months	**>3 to 12 Months**	**>12 Months**	**Total**
Financial Assets				
Due from BSP	**₱85,307**	**₱–**	**₱–**	**₱85,307**
Due from other banks	**9,689**	**–**	**–**	**9,689**
Investment securities	**9,678**	**–**	**82,778**	**92,456**
Loans and receivables	**179,102**	**26,169**	**123,799**	**329,070**
Total financial assets	**283,776**	**26,169**	**206,577**	**516,522**
Financial Liabilities				
Deposit liabilities	**199,467**	**12,083**	**259,412**	**470,962**
Bills payable	**13,685**	**2,718**	**552**	**16,955**
Total financial liabilities	**213,152**	**14,801**	**259,964**	**487,917**
Repricing gap	**₱70,624**	**₱11,368**	**(₱53,387)**	**₱28,605**

	Parent Company			
	2015			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱77,004	₱–	₱–	₱77,004
Due from other banks	19,201	–	–	19,201
Investment securities	1,440	330	64,475	66,245
Loans and receivables	165,200	32,346	62,099	259,645
Total financial assets	262,845	32,676	126,574	422,095
Financial Liabilities				
Deposit liabilities	147,010	8,728	217,865	373,603
Bills payable	7,377	2,039	9,007	18,423
Total financial liabilities	154,387	10,767	226,872	392,026
Repricing gap	₱108,458	₱21,909	(₱100,298)	₱30,069

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 to parallel changes in the interest rate curve in a given 12-month period.

The following table sets forth the estimated change in the Group's and Parent Company's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2016 and 2015:

	Consolidated			
	2016			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**₱752**	**₱376**	**(₱376)**	**(₱752)**
As a percentage of the Group's net interest income for the year ended December 31, 2016	**4.48%**	**2.24%**	**(2.24%)**	**(4.48%)**

	Consolidated			
	2015			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱1,264	₱632	(₱632)	(₱1,264)
As a percentage of the Group's net interest income for the year ended December 31, 2015	8.38%	4.19%	(4.19%)	(8.38%)

	Parent Company			
	2016			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**₱791**	**₱396**	**(₱396)**	**(₱791)**
As a percentage of the Parent Company's net interest income for the year ended December 31, 2016	**5.70%**	**2.85%**	**(2.85%)**	**(5.70%)**

	Parent Company			
	2015			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱1,249	₱624	(₱624)	(₱1,249)
As a percentage of the Parent Company's net interest income for the year ended December 31, 2015	10.08%	5.04%	(5.04%)	(10.08%)

The following table sets forth the estimated change in the Group's and Parent Company's income before tax and equity due to a reasonably possible change in the market prices of quoted bonds classified under financial assets at FVPL and AFS financial assets, brought about by movement in the interest rate curve as of December 31, 2016 and 2015 (in millions):

	Consolidated			
	2016			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in income before tax	**(₱47)**	**(₱19)**	**₱19**	**₱47**
Change in equity	**(377)**	**(151)**	**151**	**377**

	Consolidated			
	2015			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱71)	(₱29)	₱29	₱72
Change in equity	(828)	(334)	336	848

	Parent Company			
	2016			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in income before tax	**(₱40)**	**(₱16)**	**₱16**	**₱40**
Change in equity	**(339)**	**(136)**	**136**	**339**

	Parent Company			
	2015			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱59)	(₱24)	₱24	₱60
Change in equity	(782)	(315)	317	800

Foreign Currency Risk
The Group's foreign exchange risk originates from its holdings of foreign currency-denominated assets (foreign exchange assets) and foreign currency-denominated liabilities (foreign exchange liabilities).

Foreign exchange liabilities generally consist of foreign currency-denominated deposits in the Group's FCDU account made in the Philippines or generated from remittances to the Philippines by persons overseas who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Group.

Foreign currency liabilities are generally used to fund the Group's foreign exchange assets which generally consist of foreign currency-denominated loans and investments in the FCDU. Banks are required by the BSP to match the foreign currency-denominated assets with liabilities held in the FCDU that are denominated in the same foreign currency. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held in the FCDU.

The Group's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Group believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Group and its subsidiaries are engaged.

The table below summarizes the Group's and Parent Company's exposure to foreign exchange risk. Included in the table are the Group's and Parent Company's assets and liabilities at carrying amounts (stated in US Dollars), categorized by currency:

	Consolidated							
	2016				2015			
	USD	Other Currencies	Total	PHP	USD	Other Currencies	Total	PHP
Assets								
Cash and other cash items	**$15,366**	**$2,781**	**$18,147**	**₱896,335**	$11,464	$2,854	$14,318	₱674,996
Due from other banks	**141,279**	**8,623**	**150,352**	**7,422,444**	332,199	20,698	352,897	16,615,197
Financial assets at FVPL	**95,587**	**7**	**95,594**	**4,752,967**	81,763	1,417	83,180	3,915,125
AFS financial assets	**460,901**	**–**	**460,901**	**22,859,924**	492,412	–	492,412	23,172,924
HTM financial assets	**702,957**	**8,560**	**711,517**	**35,252,391**	315,835	2,932	318,767	14,966,432
Loans and receivables	**658,657**	**913**	**659,570**	**32,771,104**	720,262	986	721,248	33,942,299
Accrued interest receivable	**18,691**	**55**	**18,746**	**929,765**	18,280	217	18,497	870,570
Other assets	**38,175**	**7**	**38,182**	**1,898,142**	37,145	22	37,167	1,749,078
	2,132,064	**20,941**	**2,153,011**	**106,783,072**	2,009,360	29,126	2,038,486	95,906,621
Liabilities								
Deposit liabilities	**1,631,011**	**18,875**	**1,649,886**	**81,835,829**	1,405,689	18,222	1,423,911	67,017,476
Bills payables	**341,865**	**–**	**341,865**	**16,997,522**	392,872	–	392,872	18,488,559
Accrued interest and other expenses	**2,897**	**2**	**2,899**	**143,929**	2,788	7	2,795	131,546
Other liabilities	**60,462**	**840**	**61,302**	**2,981,638**	53,478	830	54,308	2,556,035
	2,036,235	**19,717**	**2,055,952**	**101,958,918**	1,854,827	19,059	1,873,886	88,193,616
Currency spot	**(3,027)**	**51**	**(2,976)**	**(148,562)**	8,000	–	8,000	376,480
Currency forwards	**(59,371)**	**10,790**	**(48,581)**	**(2,414,102)**	(153,326)	(4,345)	(157,671)	(7,422,016)
Net Exposure	**$32,980**	**$12,070**	**$45,050**	**₱2,261,490**	$9,207	$5,722	$14,929	₱667,469

	Parent Company							
	2016				2015			
	USD	Other Currencies	Total	PHP	USD	Other Currencies	Total	PHP
Assets								
Cash and other cash items	**$13,224**	**$2,781**	**$16,005**	**₱795,534**	$10,287	$2,854	$13,141	₱619,609
Due from other banks	**121,834**	**8,62**	**130,457**	**6,486,192**	314,210	20,698	334,908	15,768,625
Financial assets at FVPL	**95,587**	**7**	**95,594**	**4,752,967**	73,393	1,417	74,810	3,521,218
AFS financial assets	**439,821**	**–**	**439,821**	**21,867,906**	477,612	–	477,612	22,476,428
HTM financial assets	**670,955**	**8,560**	**679,515**	**33,746,382**	294,301	2,932	297,233	13,953,016
Loans and receivables	**650,077**	**913**	**650,990**	**32,367,332**	710,627	986	711,613	33,488,871
Accrued interest receivable	**17,827**	**55**	**17,882**	**889,109**	17,543	217	17,760	835,871
Other assets	**38,098**	**7**	**38,105**	**1,894,483**	34,213	22	34,235	1,611,107
	2,047,423	**20,946**	**2,068,370**	**102,799,905**	1,932,186	29,126	1,961,312	92,274,745
Liabilities								
Deposit liabilities	**1,557,612**	**18,875**	**1,576,487**	**78,381,671**	1,343,583	18,222	1,361,805	64,094,780
Bills payables	**341,865**	**–**	**341,865**	**16,997,522**	392,872	–	392,872	18,488,559
Accrued interest and other expenses	**2,825**	**2**	**2,827**	**140,518**	2,682	7	2,689	126,557
Other liabilities	**54,153**	**840**	**54,993**	**2,684,710**	46,024	830	46,854	2,205,239
	1,956,455	**19,717**	**1,976,172**	**98,204,421**	1,785,161	19,059	1,804,220	84,915,135
Currency spot	**(3,027)**	**51**	**(2,976)**	**(148,562)**	8,000	–	8,000	376,480
Currency forwards	**(59,371)**	**10,790**	**(48,581)**	**(2,414,102)**	(153,326)	(4,345)	(157,671)	(7,422,016)
Net Exposure	**$28,570**	**$12,070**	**$40,640**	**₱2,032,020**	$1,699	$5,722	$7,421	₱314,074

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the US$ exchange rate and other currencies per Philippine peso on the pre-tax income and equity (in millions).

	Consolidated		
	Change in Foreign Exchange Rate	**Sensitivity of Pretax Income**	**Sensitivity of Equity**
2016			
USD	**2%**	**₱54**	**₱164**
Other	**1%**	**–**	**–**
USD	**(2%)**	**(54)**	**(164)**
Other	**(1%)**	**–**	**–**

	Consolidated		
	Change in Foreign Exchange Rate	**Sensitivity of Pretax Income**	**Sensitivity of Equity**
2015			
USD	2%	83	547
Other	1%	1	1
USD	(2%)	(83)	(547)
Other	(1%)	(1)	(1)

	Parent Company		
	Change in Foreign Exchange Rate	**Sensitivity of Pretax Income**	**Sensitivity of Equity**
2016			
USD	**2%**	**₱51**	**₱143**
Other	**1%**	**–**	**–**
USD	**(2%)**	**(51)**	**(143)**
Other	**(1%)**	**–**	**–**
2015			
USD	2%	75	525
Other	1%	1	1
USD	(2%)	(75)	(525)
Other	(1%)	(1)	(1)

The impact in pre-tax income and equity is due to the effect of foreign currency behaviour to Philippine peso.

Equity Price Risk
Equity price risk is the risk that the fair values of equities change as a result of movements in both the level of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on the Group and Parent Company's equity as a result of a change in the fair value of equity instruments held as AFS due to a reasonably possible change in equity indices, with all other variables held constant, is as follows (in millions):

	Consolidated	
	Change in equity index	Effect on Equity
2016	**+10%**	**₱19.8**
	-10%	**12.1**
2015	+10%	10.6
	-10%	(41.0)

	Parent Company	
	Change in equity index	Effect on Equity
2016	**+10%**	**₱19.8**
	-10%	**12.1**
2015	+10%	10.6
	-10%	(41.0)

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they become due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed of deposits reserves and high quality securities, the securing of money market lines, and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The table below shows the maturity profile of the Parent Company's assets and liabilities, based on contractual undiscounted cash flows (in millions):

	December 31, 2016					
	On demand	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Total**
Financial Assets						
Cash and other cash items	**₱10,581**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,581**
Due from BSP	**85,307**	–	–	–	–	**85,307**
Due from other banks	**9,689**	–	–	–	–	**9,689**
Interbank loans receivable and SPURA	–	**2,958**	–	–	–	**2,958**
Financial assets at FVPL	–	**583**	**326**	**1,484**	**5,400**	**7,793**
AFS financial assets	–	**12,192**	**1,676**	**3,705**	**19,709**	**37,282**
Loans and receivables	–	**141,925**	**17,948**	**21,115**	**195,228**	**376,216**
	105,577	**157,658**	**19,950**	**26,304**	**220,337**	**529,826**
Financial Liabilities						
Deposit liabilities						
Demand	**122,266**	–	–	–	–	**122,266**
Savings	**132,772**	–	–	–	–	**132,772**
Time	–	**211,755**	**3,440**	**724**	**962**	**216,881**
Bills payable	–	**9,236**	**7,813**	–	–	**17,049**
Manager's checks	–	**1,446**	–	–	–	**1,446**
Accrued interest and other expenses	–	**578**	–	–	–	**758**
Derivative liabilities	–	**243**	–	–	–	**243**
Other liabilities:	–		–	–	–	
Accounts payable	–	**1,731**	–	–	–	**1,731**
Acceptances payable	–	**1,172**	–	–	–	**1,172**
Due to PDIC	–	**428**	–	–	–	**428**
Margin deposits	–	**2**	–	–	–	**2**
Other credits - dormant	–	**304**	–	–	–	**304**
Due to the Treasurer of the Philippines	–	**24**	–	–	–	**24**
Miscellaneous	–	**429**	–	–	–	**289**
Total liabilities	**255,038**	**227,348**	**11,253**	**724**	**962**	**495,325**
Net Position	**(₱149,461)**	**(₱69,690)**	**₱8,697**	**₱25,580**	**₱219,375**	**₱34,501**

	December 31, 2015					
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Financial Assets						
Cash and other cash items	₱10,053	₱–	₱–	₱–	₱–	₱10,053
Due from BSP	77,004	–	–	–	–	77,004
Due from other banks	19,201	–	–	–		19,201
Financial assets at FVPL	–	284	179	237	5,035	5,735
AFS financial assets	–	3,386	3,042	3,032	53,207	62,667
Loans and receivables	–	143,283	27,523	26,998	104,990	302,794
	106,258	146,953	30,744	30,267	163,232	477,454

(Forward)

	December 31, 2015					
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Financial Liabilities						
Deposit liabilities						
Demand	₱103,025	₱–	₱–	₱–	₱–	₱103,025
Savings	104,137	–	–	–	–	104,137
Time	–	154,580	1,187	3,212	8,522	167,501
Bills payable	–	11,291	–	7,369	–	18,660
Manager's checks	–	741	–	–	–	741
Accrued interest and other expenses	–	355	–	–	–	355
Derivative liabilities	–	66	–	–	–	66
Other liabilities:						
Accounts payable	–	1,262	–	–	–	1,262
Acceptances payable	–	997	–	–	–	997
Due to PDIC	–	346	–	–	–	346
Margin deposits	–	3	–	–	–	3
Other credits - dormant	–	214	–	–	–	214
Due to the Treasurer of the Philippines	–	96	–	–	–	96
Miscellaneous	–	419	–	–	–	419
Total liabilities	207,162	170,370	1,187	10,581	8,522	397,822
Net Position	(₱100,904)	(₱23,417)	₱29,557	₱19,686	₱154,710	₱79,632

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the MCO report, as well as an analysis of available liquid assets. Instead of relying solely on contractual maturities profile, the Parent Company uses Behavioral MCO to capture a going concern view. Furthermore, internal liquidity ratios and monitoring of large funds providers have been set to determine sufficiency of liquid assets over deposit liabilities. In 2016, the Bank started submitting quarterly Liquidity Coverage Ratio as prescribed by the BSP for a 2 year observation period. Liquidity is managed by the Parent and subsidiaries on a daily basis, while scenario stress tests are conducted periodically.

7. Due From BSP and Other Banks

Due from BSP

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Demand deposit account	**₱84,480,394**	₱68,886,859	**₱78,773,027**	₱61,433,089
Special deposit account	**7,450,000**	17,291,115	**6,500,000**	15,430,000
Others	**34,101**	140,527	**34,101**	140,527
	₱91,964,495	₱86,318,501	**₱85,307,128**	₱77,003,616

Due from Other Banks

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Local banks	**₱6,296,727**	₱12,237,681	**₱4,747,467**	₱10,859,956
Foreign banks	**5,035,509**	9,005,811	**4,941,698**	8,340,588
	₱11,332,236	₱21,243,492	**₱9,689,165**	₱19,200,544

Interest Income on Due from BSP and Other Banks

This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Due from BSP	**₱497,571**	₱220,406	₱554,802	**₱440,260**	₱159,792	₱432,703
Due from other banks	**221,843**	95,399	146,340	**115,528**	22,870	32,386
	₱719,414	₱315,805	₱701,142	**₱555,788**	₱182,662	₱465,089

8. Trading and Investment Securities

Financial Assets at FVPL
This account consists of:

	Consolidated		Parent Company	
	2016	**2015**	2016	**2015**
Held for trading				
Government bonds (Note 27)	**₱2,404,049**	₱1,386,524	**₱2,240,488**	₱992,617
Treasury notes	**1,031,675**	1,106,252	**724,219**	720,983
Treasury bills	**994,203**	595,351	**994,203**	595,351
Private bonds	**594,798**	556,570	**594,798**	556,570
	5,024,725	3,644,697	**4,553,708**	2,865,521
Financial assets designated at FVPL	**2,462,886**	2,299,970	**2,462,886**	2,299,970
Derivative assets (Note 24)	**216,288**	299,926	**216,288**	299,926
Total	**₱7,703,899**	₱6,244,593	**₱7,232,882**	₱5,465,417

Financial assets designated at FVPL of the Parent Company consist of investments in shares of stocks which contain multiple embedded derivatives which are deemed not clearly and closely related to its equity host. In this regard, PAS 39 provides that if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract at FVPL unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited. On this basis, management has determined that the investments shall be designated as at FVPL.

Dividends earned by the Parent Company from its investment in shares designated at FVPL amounted to ₱182.13 million, ₱247.10 million and ₱301.58 million in 2016, 2015 and 2014, respectively (Note 20).

As of December 31, 2016 and 2015, HFT securities include fair value loss of ₱63.97 million and ₱14.47 million, respectively, for the Group, and fair value loss of ₱51.06 million and ₱16.89 million, respectively, for the Parent Company. Both realized and unrealized gains and losses on HFT and financial assets designated at FVPL are included under ‘Trading and securities gain - net’ (Note 20).

Effective interest rates for peso-denominated financial assets at FVPL for both the Group and the Parent Company range from 2.08% to 6.88% in 2016, and from 1.63% to 13.75% in 2015 and 2014. Effective interest rates for foreign currency-denominated financial assets at FVPL for the Group range from 0.99% to 7.24% in 2016, and from 1.37% to 10.63% in 2015 and 2014.

Effective interest rates for foreign currency-denominated financial assets at FVPL for the Parent Company range from 0.99% to 6.80% in 2016, from 2.50% to 10.63% in 2015, and from 2.75% to 10.63% in 2014.

AFS Financial Assets
This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Quoted				
Government bonds (Notes 17 and 27)	**₱22,337,592**	₱40,193,418	**₱20,561,662**	₱38,663,049
Private bonds	**11,417,612**	8,213,921	**10,491,728**	7,766,369
Equities	**80,947**	111,470	**80,947**	111,470
	33,836,150	48,518,809	**31,134,337**	46,540,888
Unquoted				
Private bonds and commercial papers - net	**–**	290,256	**–**	273,898
Equities - net *	**37,572**	20,168	**19,413**	19,413
	37,572	310,424	**19,413**	293,311
Total	**₱33,873,722**	₱48,829,233	**₱31,153,750**	₱46,834,199

** Includes fully impaired equity investments with acquisition cost of ₱38.74 million for the Group and ₱6.32 million for the Parent Company as of December 31,2016 and 2015.*

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations.

Net unrealized gains (losses)
AFS financial assets include fair value losses of ₱1.47 billion and ₱1.32 billion for the Group and Parent Company, respectively, as of December 31, 2016, and fair value losses of ₱1.13 billion for the Group and Parent Company, as of December 31, 2015. The fair value gains or losses are recognized under OCI. Impairment loss on AFS financial assets of the Group, which was charged to operations, amounted to ₱0.06 million in 2015. No impairment loss was recognized in 2016 and 2014.

Effective interest rates for peso-denominated AFS financial assets for the Group range from 1.34% to 7.00% in 2016, from 2.14% to 7.25% in 2015 and from 1.63% to 8.92% 2014. Effective interest rates for peso-denominated AFS financial assets for the Parent Company range from 2.08% to 7.00% in 2016, from 2.14% to 7.25% in 2015 and from 1.63% to 8.92% 2014.

Effective interest rates for foreign currency-denominated AFS financial assets for both the Group and Parent Company range from 0.37% to 7.45% in 2016, from 1.50% to 7.45% in 2015, and from 1.50% to 5.71% in 2014.

HTM Financial Assets
This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Government bonds (Note 17)	**₱38,610,521**	₱12,891,098	**₱36,243,699**	₱11,306,923
Private bonds	**12,180,159**	2,806,247	**11,530,159**	2,356,247
	50,790,680	15,697,345	**47,773,858**	13,663,170
Unamortized premium - net	**6,614,120**	438,802	**6,295,163**	282,475
	₱57,404,800	₱16,136,147	**₱54,069,021**	₱13,945,645

Effective interest rates for peso-denominated HTM financial assets for the Group range from 2.05% to 6.63% in 2016, from 1.35% to 9.13% in 2015 and from 2.15 to 9.13% in 2014. Effective interest rates for foreign currency-denominated HTM financial assets range from 0.21% to 8.93% in 2016, from 2.26% to 10.72% in 2015, and from 3.11% to 11.55% in 2014.

Effective interest rates for peso-denominated HTM financial assets of the Parent Company range from 2.82% to 5.25% in 2016 and from 4.13% to 9.13% in 2015 and 2014. Effective interest rates for foreign currency-denominated HTM financial assets range from 0.21% to 8.93% in 2016, from 2.26% to 10.72% in 2015, and from 4.61% to 11.55% in 2014.

Reclassification of Financial Assets

2016 Reclassification

The Group transferred certain securities from AFS financial assets to HTM financial assets on various dates ranging from November 11 to 21, 2016 (reclassification date). The decision to effect this transfer was reached by balancing the need to reduce the market risk sensitivity of the balance sheet without reducing the portfolio of liquid assets.

Details of reclassified financial assets follows:

	Consolidated					
	Face Value	**Carrying Value at Reclassification Date**	**Carrying Value**	**Fair Value**	**Unamortized Net Unrealized Loss Deferred in Equity**	**Amortization**
(in original currency)						
Philippine peso denominated government bonds	**₱10,106,378**	**₱11,874,068**	**₱11,032,214**	**₱10,855,315**	**(₱591,635)**	**₱5,052**
US dollar denominated government bonds	**USD103,371**	**136,735**	**128,776**	**127,305**	**(6,731)**	**56**

	Parent					
	Face Value	**Carrying Value at Reclassification Date**	**Carrying Value**	**Fair Value**	**Unamortized Net Unrealized Loss Deferred in Equity**	**Amortization**
(in original currency)						
Philippine peso denominated government bonds	**₱9,856,378**	**₱11,588,081**	**₱10,758,190**	**₱10,586,090**	**(₱579,859)**	**₱4,964**
US dollar denominated government bonds	**USD96,871**	**127,088**	**120,063**	**118,776**	**(5,812)**	**52**

Had these securities not been transferred to HTM, additional fair value loss that would have been charged against the statement of comprehensive income amounted to ₱768.82 million and ₱752.26 million in 2016 on Philippine peso denominated government bonds for the Group and the Parent Company, respectively. Additional fair value loss of USD8.21 million (₱408.20 million) and USD7.11 million (₱353.51 million) would have been charged against to the statement of comprehensive income in 2016 on US dollar denominated government bonds for the Group and Parent Company, respectively.

The effective interest rates on the reclassified assets at reclassification dates range from 3.28% to 5.06% and 4.06% to 5.06% for Philippine peso denominated government bonds for the Group and Parent Company, respectively. The effective interest rates on the transferred assets range from 1.77% to 4.16% for US dollar denominated bonds at the time of their reclassification for both the Group and Parent Company. The Group and Parent Company expect to recover 100% of the principal and the interest due on these transferred assets. These securities are also unimpaired as of December 31, 2016.

Fair value changes taken to OCI in 2016 for these reclassified securities amounted to ₱584.82 million and USD4.99 million for Philippine peso denominated and US dollar denominated government bonds, respectively.

2008 Reclassification
In 2008, as approved by its BOD, the Parent Company identified assets for which it had a clear change of intent to hold the investments to maturity rather than to exit or trade these investments in the foreseeable future and reclassified those investments from AFS financial assets to HTM financial assets effective October 2, 2008.

As of October 2, 2008, the total carrying value of AFS financial assets reclassified to HTM financial assets amounted to ₱9.04 billion, with unrealized losses of ₱47.44 million deferred under 'Net unrealized gains (losses) on AFS financial assets'. HTM financial assets reclassified from AFS financial assets with total face amount of ₱1.57 billion and ₱244.24 million matured in 2016 and 2015, respectively.

As of December 31, 2016 and 2015, HTM financial assets reclassified from AFS financial assets have the following balances:

	Face Value	Original Cost	Carrying Value	Fair Value	Unamortized Net Unrealized Deferred in Equity	Amortization
2016						
Government bonds*	**₱1,284,516**	**₱1,553,572**	**₱1,311,014**	**₱1,367,155**	**(₱8,127)**	**₱6,496**
Private bonds**						
	₱1,284,516	**₱1,553,572**	**₱1,311,014**	**₱1,367,155**	**(₱8,127)**	**₱6,496**
2015						
Government bonds*	₱2,325,370	₱2,637,212	₱2,390,697	₱2,771,976	(₱1,088)	(₱35,901)
Private bonds**	378,362	378,344	375,305	393,996	(3,055)	19,628
	₱2,703,732	₱3,015,556	₱2,766,002	₱3,165,972	(₱4,143)	(₱16,273)

* Consist of US dollar-denominated bonds with face value of $25.84 million and $46.44 million as of December 31, 2016 and 2015, respectively, and euro-denominated bonds with face value of €2.71 million as of December 31, 2015.
** Consist of US dollar-denominated bonds with face value of $35.0 million and $8.04 million as of December 31, 2016 and 2015, respectively.

Had these securities not been reclassified to HTM financial assets, additional fair value gain that would have been credited to the statement of comprehensive income amounted to ₱47.93 million, ₱395.74 million, and ₱324.67 million in 2016, 2015 and 2014, respectively. Effective interest rates on the reclassified securities range from 6.16% to 8.93%. The Parent Company expects to recover 100.00% of the principal and interest due on the reclassified investments. No impairment loss was recognized on these securities in 2016, 2015 and 2014.

Interest Income on Trading and Investment Securities
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Financial assets at FVPL	**₱204,882**	₱262,027	₱277,144	**₱179,406**	₱232,464	₱239,537
AFS financial assets	**1,538,173**	1,840,978	1,776,157	**1,439,037**	1,785,184	1,683,205
HTM financial assets	**1,539,908**	997,797	968,485	**1,441,882**	929,266	949,382
	₱3,282,963	₱3,100,802	₱3,021,786	**₱3,060,325**	₱2,946,914	₱2,872,124

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2016	**2015**	2016	**2015**
Loans and discounts				
Corporate and commercial lending	**₱319,733,478**	₱255,950,751	**₱288,122,032**	₱225,505,499
Consumer lending	**60,416,106**	48,012,782	**35,409,327**	29,240,653
Trade-related lending	**13,045,531**	12,750,550	**11,376,697**	11,147,748
Others*	**543,021**	320,699	**68,870**	71,514
	393,738,136	317,034,782	**334,976,926**	265,965,414
Unearned discounts	**(255,841)**	(278,335)	**(198,042)**	(168,620)
	393,482,295	316,756,447	**334,778,884**	265,796,794
Allowance for impairment and credit losses (Note 15)	**(6,654,995)**	(6,994,670)	**(5,709,025)**	(6,151,786)
	₱386,827,300	₱309,761,777	**₱329,069,859**	₱259,645,008

*Others include employee loans and foreign bills purchased.

The Group's and Parent Company's loans and discounts under corporate and commercial lending include unquoted debt securities with carrying amount of ₱4.08 billion and ₱3.98 billion as of December 31, 2016, respectively, and ₱1.37 billion and ₱1.00 billion as of December 31, 2015, respectively.

Outstanding loans of the Group and the Parent Company amounting to ₱760.38 billion and ₱0.21 million, respectively, in 2015, are funded by relending facilities with local government agencies (Note 17).

BSP Reporting

Information on the amounts of secured and unsecured loans and receivables (gross of unearned discounts and allowance for impairment and credit losses) of the Group and Parent Company are as follows:

	Consolidated				**Parent Company**			
	2016		2015		**2016**		2015	
	Amounts	**%**	Amounts	%	**Amounts**	**%**	Amounts	%
Loans secured by								
Real estate	**₱55,840,410**	**14.18**	₱64,153,568	20.23	**₱33,443,459**	**9.98**	₱41,243,643	15.51
Chattel mortgage	**29,496,094**	**7.49**	26,271,491	8.29	**19,713,062**	**5.88**	19,272,656	7.25
Deposit hold out	**3,806,062**	**0.97**	3,710,591	1.17	**2,251,423**	**0.67**	1,764,664	0.66
Shares of stock of other banks	**2,710,000**	**0.69**	4,948,073	1.56	**2,710,000**	**0.81**	4,948,073	1.86
Guarantee by the Republic of the Philippines	**8,487,000**	**2.16**	9,153,000	2.89	**8,487,000**	**2.53**	9,153,000	3.44
Others	**76,814,028**	**19.49**	24,504,252	7.73	**73,171,797**	**21.86**	22,018,279	8.28
	177,153,594	**44.98**	132,740,975	41.87	**139,776,741**	**41.73**	98,400,315	37.00
Unsecured loans	**216,584,543**	**55.02**	184,293,807	58.13	**195,200,185**	**58.27**	167,565,099	63.00
	₱393,738,136	**100.00**	₱317,034,782	100.00	**₱334,976,926**	**100.00**	₱265,965,414	100.00

Information on the concentration of credit as to industry of the Group and Parent Company follows:

	Consolidated			
	2016		2015	
	Amounts	**%**	Amounts	%
Real estate, renting and business services	**₱97,201,490**	**24.69**	₱73,904,956	23.31
Wholesale and retail trade	**57,498,702**	**14.60**	45,524,686	14.36
Financial intermediaries	**40,750,252**	**10.35**	22,164,997	6.99
Electricity, gas and water	**40,385,429**	**10.26**	26,924,936	8.49
Transportation, storage and communication	**33,885,852**	**8.61**	23,046,395	7.27
Manufacturing	**27,602,087**	**7.01**	37,854,608	11.94
Construction	**10,167,766**	**2.58**	9,973,878	3.15
Accommodation and food service activities	**8,227,872**	**2.09**	5,953,404	1.88
Public administration and defense	**7,544,000**	**1.92**	8,200,000	2.59
Arts, entertainment and recreation	**7,511,725**	**1.91**	7,603,811	2.40
Agriculture	**5,782,267**	**1.47**	6,100,963	1.92
Professional, scientific and technical activities	**5,760,184**	**1.46**	7,563,543	2.39
Education	**3,819,309**	**0.97**	4,312,472	1.36
Mining and quarrying	**1,419,481**	**0.36**	1,479,981	0.47
Others*	**46,181,720**	**11.73**	36,426,152	11.48
	₱393,738,136	**100.00**	₱317,034,782	100.00

*Others consist of administrative and support service, health, household and other activities.

	Parent Company			
	2016		2015	
	Amounts	**%**	Amounts	%
Real estate, renting and business services	**₱76,873,563**	**22.95**	₱57,640,859	21.67
Wholesale and retail trade	**49,143,056**	**14.67**	38,336,067	14.41
Electricity, gas and water	**40,103,651**	**11.97**	26,653,354	10.02
Financial intermediaries	**37,826,049**	**11.29**	19,014,800	7.15
Transportation, storage and communication	**31,858,356**	**9.51**	21,288,949	8.00
Manufacturing	**23,465,857**	**7.01**	33,704,510	12.67
Construction	**8,829,298**	**2.64**	8,490,130	3.19
Public administration and defense	**7,544,000**	**2.25**	8,200,000	3.08
Arts, entertainment and recreation	**7,470,098**	**2.23**	7,570,591	2.85
Accommodation and food service activities	**6,511,668**	**1.94**	4,310,755	1.62
Professional, scientific and technical activities	**5,318,354**	**1.59**	7,397,503	2.78
Agriculture	**3,762,789**	**1.12**	4,076,266	1.53
Education	**2,807,735**	**0.84**	3,424,162	1.29
Mining and quarrying	**1,257,731**	**0.38**	1,479,981	0.56
Others*	**32,204,721**	**9.61**	24,377,487	9.18
	₱334,976,926	**100.00**	₱265,965,414	100.00

*Others consist of administrative and support service, health, household and other activities.

The BSP considers that loan concentration exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. As of December 31, 2016 and 2015, the Parent Company does not have credit concentration in any particular industry.

As of December 31, 2016 and 2015, secured and unsecured non-performing loans (NPLs) of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Secured	**₱3,038,413**	₱4,125,042	**₱1,086,882**	₱1,741,816
Unsecured	**4,274,659**	3,884,797	**2,642,103**	3,256,796
	₱7,313,072	₱8,009,839	**₱3,728,985**	₱4,998,612

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches twenty percent (20.00%) of the total loan balance.

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

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Gross and net NPLs of the Parent Company as reported to BSP amounted to ₱3.73 billion and ₱1.42 billion, respectively, in 2016 and ₱5.00 billion and ₱1.82 billion, respectively, in 2015. Gross and net NPL ratios of the Parent Company are 1.12% and 0.43%, respectively, in 2016 and 1.89% and 0.69%, respectively, in 2015.

Interest Income on Loans and Receivables
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Receivables from customers	**₱17,812,793**	₱15,813,206	₱14,515,093	**₱14,055,123**	₱12,257,457	₱11,158,515
Unquoted debt securities	**76,459**	87,521	159,118	**67,164**	67,502	136,901
	₱17,889,252	₱15,900,727	₱14,674,211	**₱14,122,287**	₱12,324,959	₱11,295,416

As of December 31, 2016 and 2015, 52.53% and 58.86%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2016 and 2015, 53.29% and 62.10%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.00% to 11.00% in 2016, from 1.82% to 8.00% in 2015, and from 0.98% to 10.50% in 2014 for foreign currency-denominated receivables and from 1.00% to 30.00% in 2016 and 2015, and from 1.25% to 29.00% in 2014 for peso-denominated receivables.

10. **Equity Investments**

This account consists of investments in:

	Parent Company		
	December 31	January 1	
	2016	2015	2015
Investment cost			
Subsidiaries			
CBSI	**₱12,165,984**	₱9,665,532	2,986,311
PDB (merged with CBSI in 2015)	–	–	2,976,700
CBCC	**500,000**	300,000	–
CBC Forex Corporation	–	50,000	50,000
CBC-PCCI	**2,439**	2,439	2,439
CIBI	**1,500**	1,500	1,500
	12,669,923	10,019,471	6,016,950
Associate			
Manulife China Bank Life Assurance Corporation (MCB Life)	**166,273**	166,273	166,273
	₱12,836,196	10,185,744	6,183,223
Accumulated equity in net income (loss)			
Balance at beginning of the year	**(417,732)**	(177,939)	192,098
Share in net income (loss)			
Subsidiaries	**464,999**	(201,900)	(369,125)
Associate	**(89,384)**	(37,893)	(912)
	375,615	(239,793)	(370,037)
Balance at end of the year	**(42,117)**	(417,732)	(177,939)
Equity in net unrealized loss on measurement of retirement plan and translation adjustment and others			
Subsidiaries	**(213,661)**	(126,068)	(69,223)
Associate	**(134,823)**	(129,367)	(5,970)
	(348,484)	(255,435)	(75,193)
Carrying value			
Subsidiaries	**12,169,037**	9,141,177	5,397,402
Associate	**276,559**	371,399	532,689
	₱12,445,596	₱9,512,576	₱5,930,091

	Parent Company		
	December 31, 2016	December 31, 2015	January 1, 2015
Investment cost			
Subsidiaries			
CBSI	**₱12,165,984**	₱9,665,532	₱2,986,311
PDB (merged with CBSI in 2015)			2,976,700
CBCC	**500,000**	300,000	–
CBC Forex Corporation	**–**	50,000	50,000
CBC-PCCI	**2,439**	2,439	2,439
CIBI	**1,500**	1,500	1,500
	12,669,923	10,019,471	6,016,950
Associate			
Manulife China Bank Life Assurance Corporation (MCB Life)	**166,273**	166,273	166,273
	₱12,836,196	10,185,744	6,183,223
Accumulated equity in net income (loss)			
Balance at beginning of the year	**(417,732)**	(177,939)	192,098
Share in net income (loss)			
Subsidiaries	**464,999**	(201,900)	(369,125)
Associate	**(89,384)**	(37,893)	(912)
	375,615	(239,793)	(370,037)
Balance at end of the year	**(42,117)**	(417,732)	(177,939)
Equity in net unrealized loss on measurement of retirement plan and translation adjustment and others			
Subsidiaries	**(213,661)**	(126,068)	(69,223)
Associate	**(134,823)**	(129,367)	(5,970)
	(348,484)	(255,435)	(75,193)
Carrying value			
Subsidiaries	**12,169,037**	9,141,177	5,397,402
Associate	**276,559**	371,399	532,689
	₱12,445,596	₱9,512,576	₱5,930,091

CBSI

Cost of investment includes the original amount incurred by the Parent Company from its acquisition of CBSI in 2007 amounting to ₱1.07 billion, additional acquisition of non-controlling interest in 2015 of ₱2.52 million, capital infusion of ₱1.5 billion, ₱1.0 billion, and ₱2.0 billion on December 31, 2016, September 29, 2016, and December 16, 2015, respectively, and ₱4.68 billion worth of CBSI common shares received in connection with the merger of CBSI and PDB on December 31, 2015.

The capital infusions to CBSI were approved by the Parent Company's Executive Committee on December 1, 2016, September 21, 2016, and December 16, 2016. The December 16, 2015 infusion was made to comply with the BSP's mandate for the final approval of the merger between CBSI and PDB.

Merger of CBSI with PDB
The BOD of both CBSI and PDB, in their meeting held on June 26, 2014, approved the proposed merger of PDB with CBSI, with the latter as the surviving bank. The terms of the Plan of Merger of CBSI with PDB were approved by CBSI and PDB's stockholders owning at least 2/3 of each corporation's outstanding common stocks in separate meetings held on August 14, 2014. The Plan of Merger permits the issuance of 1.23 PDB common shares for every CBSI common share.

On November 6, 2015, the BSP issued the Certificate of Authority on the Articles of Merger and the Plan of Merger, as amended, of CBSI and PDB.

On December 17, 2015, CBSI obtained SEC's approval of its merger with PDB, whereby the entire assets and liabilities of PDB shall be transferred to and absorbed by CBSI.

Acquisition of PDB
In 2014, the Parent Company made tender offers to non-controlling stockholders of PDB. As of December 31, 2014, the Parent Company owns 99.85% and 100.00% of PDB's outstanding common and preferred stocks, respectively.

As of December 31, 2014, the Parent Company's cost of investment in PDB consists of:

Acquisition of majority of PDB's capital stock	₱1,421,346
Additional capital infusion	1,300,000
Tender offers	255,354
	₱2,976,700

On March 31, 2015, the Parent Company made additional capital infusion to PDB amounting to ₱1.70 billion. Of the total cost of investment, the consideration transferred for the acquisition of PDB follows:

Acquisition of majority of PDB's capital stock	₱1,421,346
Tender offers	255,354
	₱1,676,700

In 2015, the MB of the BSP granted to the Group investment and merger incentives in the form of waiver of special licensing fees for 67 additional branch licenses in restricted areas. This is in addition to the initial investment and merger incentives of 30 new branches in restricted areas and 35 branches to be transferred from unrestricted to restricted areas granted to the Parent Company by the MB in 2014. These branch licenses were granted under the Strengthening Program for Rural Bank (SPRB) Plus Framework.

The branch licenses have the following fair values:

	As restated
114 Commercial Bank branch licenses	₱2,280,000
18 Thrift Bank branch licenses	270,000
	2,550,000
Deferred tax liability	765,000
	₱1,785,000

On April 6, 2016, the Parent Company's BOD has approved the allocation of the 67 additional branch licenses in restricted areas as follows: 49 to the Parent Company and 18 to CBSI. Pursuant to memorandum dated March 18, 2016, the 67 branch licenses were awarded as incentives by the Monetary Board as a result of the Parent Company's acquisition of PDB. Goodwill from acquisition of PDB is computed as follows:

		As restated
Consideration transferred		₱1,676,700
Less: Fair value of identifiable assets and liabilities acquired		
Net liabilities of PDB	(₱725,207)	
Branch licenses, net of deferred tax liability (Note 13)	1,785,000	1,059,793
		₱616,907

In 2014, acquisition-related costs amounting to ₱6.39 million are included under various operating expenses in the statements of income.

Since the acquisition date, the amounts of revenue and net losses of PDB included in the consolidated statements of income for the year ended December 31, 2014 amounted to ₱2.78 billion and ₱265.49 million, respectively.

Had the acquisition of PDB occurred at the beginning of 2014, the Group's revenue and net income for the year ended December 31, 2014 would have increased by ₱215.24 million and decreased by ₱158.32 million, respectively.

Cash flow on acquisition follows:

Cash and cash equivalents acquired from PDB*	₱5,728,617
Less: Cash paid	1,676,700
Net cash inflow	₱4,051,917

* Includes cash and other cash items, due from BSP and other banks.

<u>CBCC</u>

On April 1, 2015, the BOD approved the investment of the Parent Company in an investment house subsidiary, China Bank Capital Corporation (CBCC), up to the amount of ₱500.00 million, subject to the requirements of relevant regulatory agencies.

On April 30, 2015, the BSP approved the request of the Parent Company to invest up to 100% or up to ₱500.00 million common shares in CBCC, subject to certain conditions.
On November 27, 2015, the SEC approved the Articles of Incorporation and By-Laws of CBCC. It also granted CBCC the license to operate as an investment house.

In 2016 and 2015, actual capital infusion to CBCC amounted to ₱200.00 million and ₱300.00 million, respectively.

<u>CBC Assets One, Inc.</u>

CBC Assets One, Inc. was incorporated on June 15, 2016 as a wholly-owned special purpose company of CBCC for asset-backed securitization. It has not yet commenced commercial operations.

CBC Forex Corporation
On May 5, 2009, the BOD approved to dissolve the operations of CBC Forex by shortening its corporate life until December 31, 2009. On December 28, 2015, the Parent Company obtained the approval from the SEC of its Certificate of Filing of Amended Articles of Incorporation (Amending the Article IV by shortening the term of its existence, thereby dissolving the Corporation) dated November 6, 2015. On December 19, 2016, the Parent Company's investment with CBC Forex Corporation amounting ₱50.0 million was liquidated.

Investment in Associates
Investment in associates in the consolidated and Parent Company's financial statements pertain to investment in MCB Life and CBC-PCCI's investment in Urban Shelters (accounted for by CBC-PCCI in its financial statements as an investment in an associate) which is carried at nil amount as of December 31, 2016 and 2015.

The following table shows the summarized financial information of MCB Life:

	2016	2015
Total assets	**₱26,419,046**	₱21,439,732
Total liabilities	**25,727,647**	20,498,841
Equity	**691,398**	940,891

	2016	2015
Revenues	**₱7,663,417**	₱5,370,875
Benefits, claims and operating expenses	**7,860,618**	5,459,395
Loss before income tax	**(197,201)**	(88,520)
Net loss	**(223,460)**	(94,733)

In 2014, the Group agreed to sell, transfer, and convey its investments in PDB Properties, Inc. and PDB Insurance Agency, Inc. to a former significant investor. The sale was duly approved by PDB's BOD and duly reported to the BSP. The Group recognized gain on the sale transaction amounting to ₱64.56 million included under 'Miscellaneous income' (Note 20).

MCB Life
On August 2, 2006, the BOD approved the joint project proposal of the Parent Company with Manufacturers Life Insurance Company (Manulife). Under the proposal, the Parent Company will invest in a life insurance company owned by Manulife, and such company will be offering innovative insurance and financial products for health, wealth and education through the Parent Company's branches nationwide. The life insurance company was incorporated as The Pramerica Life Insurance Company Inc. in 1998 but the name was changed to Manulife China Bank Life Assurance Corporation on March 23, 2007. The Parent Company acquired 5.00% interest in MCB Life on August 8, 2007. This investment is accounted for as an investment in an associate by virtue of the Bancassurance Alliance Agreement which provides the Parent Company to be represented in MCB Life's BOD and, thus, exercise significant influence over the latter.

The BSP requires the Parent Company to maintain a minimum of 5.00% ownership over MCB Life in order for MCB Life to be allowed to continue distributing its insurance products through the Parent Company's branches.

On September 12, 2014, the BSP approved the request of the Parent Company to raise its capital investment in MCB Life from 5.00% to 40.00% of its authorized capital through purchase of 1.75 million common shares.

Commission income earned by the Parent Company from its bancassurance agreement amounting to ₱383.48 million, ₱337.41 million and ₱277.14 million in 2016, 2015 and 2014, respectively, is included under 'Miscellaneous income' in the statements of income (Note 20).

11. Bank Premises, Furniture, Fixtures and Equipment

The composition of and movements in this account follow:

	Consolidated					
	Land (Note 22)	**Furniture, Fixtures and Equipment**	**Buildings**	**Leasehold Improvements**	**Construction-in-Progress**	**2016 Total**
Cost						
Balance at beginning of year	**₱3,347,222**	**₱6,601,919**	**₱1,832,834**	**₱1,338,260**	**₱90,873**	**₱13,211,108**
Additions	**–**	**809,311**	**99,911**	**215,122**	**11,307**	**1,135,651**
Disposals/transfers*	**(1,818)**	**(247,493)**	**(39,220)**	**(70,967)**	**(15,775)**	**(375,273)**
Balance at end of year	**3,345,404**	**7,163,737**	**1,893,525**	**1,482,415**	**86,405**	**13,971,486**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**5,097,654**	**895,859**	**861,406**	**–**	**6,854,919**
Depreciation and amortization	**–**	**624,690**	**114,196**	**103,330**	**–**	**842,216**
Disposals/transfers*	**–**	**(159,842)**	**3,241**	**(67,687)**	**–**	**(224,288)**
Balance at end of year	**–**	**5,562,502**	**1,013,296**	**897,049**	**–**	**7,472,847**
Allowance for Impairment Losses (Note 15)	**–**	**–**				
Balance at beginning of year	**–**	**–**	**2,070**	**–**	**–**	**2,070**
Reclassification	**–**	**–**	**301**	**–**	**–**	**301**
Balance at end of year	**–**	**–**	**2,371**	**–**	**–**	**2,371**
Net Book Value at End of Year	**₱3,345,404**	**₱1,601,235**	**₱877,858**	**₱585,366**	**₱86,405**	**₱6,496,268**

*Includes transfers from investment properties amounting to ₱4.69 million.

	Consolidated					
	Land (Note 22)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction-in-Progress	2015 Total
Cost						
Balance at beginning of year	₱2,882,702	₱5,993,877	₱1,919,398	₱1,165,793	₱45,997	₱12,007,767
Additions	494,304	738,969	20,614	90,212	149,883	1,493,982
Disposals/transfers*	(29,784)	(130,927)	(107,178)	82,255	(105,007)	(290,641)
Balance at end of year	3,347,222	6,601,919	1,832,834	1,338,260	90,873	13,211,108
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	4,255,780	835,065	663,527	–	5,754,372
Depreciation and amortization	–	619,062	75,345	128,350	–	822,757
Disposals/transfers*	–	222,812	(14,551)	69,529	–	277,790
Balance at end of year	–	5,097,654	895,859	861,406	–	6,854,919
Allowance for Impairment Losses (Note 15)						
Balance at beginning of year	–	360	2,383	–	–	2,743
Reclassification	–	(360)	(313)	–	–	(673)
Balance at end of year	–	–	2,070	–	–	2,070
Net Book Value at End of Year	₱3,347,222	₱1,504,265	₱934,905	₱476,854	₱90,873	₱6,354,119

*Includes transfers from investment properties amounting to ₱2.20 million.

	Parent Company					
	Land (Note 22)	**Furniture, Fixtures and Equipment**	**Buildings**	**Leasehold Improvements**	**Construction-in-Progress**	**2016 Total**
Cost						
Balance at beginning of year	**₱2,786,350**	**₱ 5,612,477**	**₱ 1,027,236**	**₱ 999,819**	**₱ 88,054**	**₱10,513,936**
Additions	**–**	**675,734**	**89,359**	**169,256**	**7,701**	**942,050**
Disposals/transfers*	**(40)**	**(206,202)**	**(38,987)**	**(75,581)**	**(15,616)**	**(336,426)**
Balance at end of year	**2,786,310**	**6,082,009**	**1,077,608**	**1,093,494**	**80,139**	**11,119,560**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**4,386,057**	**462,552**	**668,125**	**–**	**5,516,734**
Depreciation and amortization	**–**	**482,832**	**27,819**	**85,160**	**–**	**595,811**
Disposals/transfers*	**–**	**(93,512)**	**27,120**	**(70,574)**	**–**	**(136,966)**
Balance at end of year	**–**	**4,775,377**	**517,491**	**682,711**	**–**	**5,975,579**
Net Book Value at End of Year	**₱ 2,786,310**	**₱1,306,632**	**₱ 560,117**	**₱ 410,783**	**₱80,141**	**₱5,143,981**

*Includes transfers from investment properties amounting to ₱4.69 million.

	Parent Company					
	Land (Note 22)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction-in-Progress	2015 Total
Cost						
Balance at beginning of year	₱2,321,830	₱5,386,709	₱1,111,114	₱909,764	₱45,294	₱9,774,711
Additions	494,304	653,246	17,443	89,898	145,850	1,400,741
Disposals/transfers*	(29,784)	(427,478)	(101,321)	157	(103,090)	(661,516)
Balance at end of year	2,786,350	5,612,477	1,027,236	999,819	88,054	10,513,936
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	3,987,316	446,545	592,651	–	5,026,512
Depreciation and amortization	–	479,408	30,090	70,563	–	580,061
Disposals/transfers*	–	(80,667)	(14,083)	4,911	–	(89,839)
Balance at end of year	–	4,386,057	462,552	668,125	–	5,516,734
Net Book Value at End of Year	₱2,786,350	₱1,226,420	₱564,684	₱331,694	₱88,054	₱4,997,202

*Includes transfers from investment properties amounting to ₱2.20 million.

The Group adopted the deemed cost model as of January 1, 2004 and considered the carrying value of the land determined under its previous accounting method (revaluation method) as the deemed cost of the asset as of January 1, 2005. Accordingly, revaluation increment amounting to ₱1.28 billion was closed to surplus (Note 22) in 2011.

As of December 31, 2016 and 2015, the gross carrying amount of fully depreciated furniture, fixtures and equipment still in use amounted to ₱2.89 billion and ₱2.36 billion , respectively, for the Group and ₱2.31 billion and ₱1.99 billion, respectively, for the Parent Company.

Gain on sale of furniture, fixtures and equipment amounting to ₱2.97 million, ₱0.89 million and ₱1.52 million in 2016, 2015 and 2014, respectively, for the Group and ₱2.17 million, ₱0.50 million and ₱1.49 million in 2016, 2015 and 2014, respectively, for the Parent Company are included in the statements of income under 'Miscellaneous income' account (Note 20).

In 2014, depreciation and amortization amounting to ₱803.71 million and ₱547.31million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.

12. **Investment Properties**

The composition of and movements in this account follow:

	Consolidated		
	Land	Buildings and Improvements	2016 Total
Cost			
Balance at beginning of year	**₱4,810,128**	**₱2,588,845**	**₱7,398,973**
Additions	**363,175**	**421,240**	**784,415**
Disposals/write-off/transfers*	**(443,227)**	**(221,688)**	**(664,915)**
Balance at end of year	**4,730,076**	**2,788,397**	**7,518,473**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**–**	**713,023**	**713,023**
Depreciation and amortization	**–**	**173,007**	**173,007**
Disposals/write-off/transfers*	**–**	**(130,267)**	**(130,267)**
Balance at end of year	**–**	**755,763**	**755,763**
Allowance for Impairment Losses (Note 15)			
Balance at beginning of year	**1,023,837**	**263,974**	**1,287,811**
Provisions during the year	**–**	**(797)**	**(797)**
Disposals/write-off/reclassification*	**4,176**	**121,781**	**125,957**
Balance at end of year	**1,028,013**	**384,958**	**1,412,971**
Net Book Value at End of Year	**₱3,702,063**	**₱1,647,676**	**₱5,349,739**

*Includes transfers to bank premises amounting to ₱4.69 million.

	Consolidated		
	Land	Buildings and Improvements	2015 Total
Cost			
Balance at beginning of year	₱5,077,262	₱2,367,671	₱7,444,933
Additions due to business combination (Note 10)	–	–	–
Additions	588,667	371,665	960,332
Disposals/write-off/transfers*	(855,801)	(150,491)	(1,006,292)
Balance at end of year	4,810,128	2,588,845	7,398,973
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	652,099	652,099
Depreciation and amortization	–	142,277	142,277
Disposals/write-off/transfers*	–	(81,353)	(81,353)
Balance at end of year	–	713,023	713,023
Allowance for Impairment Losses (Note 15)			
Balance at beginning of year	1,092,234	251,070	1,343,304
Provisions during the year	–	6,633	6,633
Disposals/write-off/reclassification*	(68,397)	6,271	(62,126)
Balance at end of year	1,023,837	263,974	1,287,811
Net Book Value at End of Year	₱3,786,291	₱1,611,848	₱5,398,139

*Includes transfers to bank premises amounting to ₱2.20 million.

	Parent Company		
	Land	**Buildings and Improvements**	**2016 Total**
Cost			
Balance at beginning of year	**₱2,176,474**	**₱1,520,017**	**₱3,696,491**
Additions	**164,833**	**132,011**	**296,844**
Disposals/write-off/transfers*	**(322,242)**	**(140,679)**	**(462,921)**
Balance at end of year	**2,019,065**	**1,511,349**	**3,530,414**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**–**	**590,211**	**590,211**
Depreciation and amortization	**–**	**98,915**	**98,915**
Disposals/write-off/transfers*	**–**	**(126,006)**	**(126,006)**
Balance at end of year	**–**	**563,120**	**563,120**
Allowance for Impairment Losses (Note 15)			
Balance at beginning of year	**1,004,729**	**201,689**	**1,206,418**
Reclassification	**–**	**–**	**–**
Balance at end of year	**1,004,729**	**201,689**	**1,206,418**
Net Book Value at End of Year	**₱1,014,336**	**₱746,540**	**₱1,760,876**

*Includes transfers tobank premises amounting to ₱4.69 million.

	Parent Company		
	Land	Buildings and Improvements	2015 Total
Cost			
Balance at beginning of year	₱2,321,888	₱1,382,401	₱3,704,289
Additions	134,311	123,540	257,851
Disposals/write-off/transfers*	(279,725)	14,076	(265,649)
Balance at end of year	2,176,474	1,520,017	3,696,491
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	588,689	588,689
Depreciation and amortization	–	81,847	81,847
Disposals/write-off/transfers*	–	(80,325)	(80,325)
Balance at end of year	–	590,211	590,211
Allowance for Impairment Losses (Note 15)			
Balance at beginning of year	1,011,848	202,389	1,214,237
Reclassification	(7,119)	(700)	(7,819)
Balance at end of year	1,004,729	201,689	1,206,418
Net Book Value at End of Year	₱1,171,745	₱728,117	₱1,899,862

*Includes transfers to bank premises amounting to ₱2.20 million.

The Group's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statements of income.

In 2014, depreciation and amortization amounting to ₱118.05 million and ₱83.26 million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.

Details of rental income earned and direct operating expenses incurred on investment properties follow:

	Consolidated		
	2016	2015	2014
Rent income on investment properties	**₱20,190**	₱31,100	₱29,167
Direct operating expenses on investment properties generating rent income	**4,767**	2,392	21,801
Direct operating expenses on investment properties not generating rent income	**67,619**	52,429	61,121

	Parent Company		
	2016	2015	2014
Rent income on investment properties	**₱39,734**	₱7,020	₱5,903
Direct operating expenses on investment properties generating rent income	**886**	1,069	4,174
Direct operating expenses on investment properties not generating rent income	**44,089**	35,270	43,010

Rent income earned from leasing out investment properties is included under 'Miscellaneous income' in the statements of income (Note 20).

On August 26, 2011, the Parent Company was registered as an Economic Zone Information Technology (IT) Facilities Enterprise with the Philippine Economic Zone Authority (PEZA) to operate and maintain a proposed 17-storey building located inside the CBP-IT Park in Barangays Mabolo, Luz, Hipodromo, Carreta, and Kamputhaw, Cebu City, for lease to PEZA-registered IT enterprises, and to be known as Chinabank Corporate Center. This registration is under PEZA Registration Certificate No. 11-03-F.

Under this registration, the Parent Company is entitled to five percent (5.00%) final tax on gross income earned from locator IT enterprises and related operations in accordance with existing PEZA rules. The Parent Company shall also be exempted from the payment of all national and local taxes in relation to this registered activity.

13. **Goodwill and Intangible Assets**

Goodwill

Goodwill represents the excess of the acquisition costs over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

The Group attributed the goodwill arising from its acquisition of CBSI and PDB to factors such as increase in geographical presence and customer base due to the branches acquired. None of the goodwill recognized is expected to be deductible for income tax purposes. CBSI as surviving entity from the merger with PDB, is the identified CGU for this goodwill. The Parent Company's Retail Banking Business (RBB) has been identified as the CGU for impairment testing of the goodwill from its acquisition of CBSI.

As of December 31, 2016 and 2015, amount of goodwill per CGU follows:

	Consolidated	Parent Company
Retail Banking Business (RBB)	₱222,841	₱222,841
CBSI	616,907	–
Total	₱839,748	₱222,841

The recoverable amount of the CGUs have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period, which do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The significant assumptions used in computing for the recoverable values of the CGUs follow:

	RBB	CBSI
Growth rates		
Loans	9.30%	18.50%
Deposits	12.20%	18.00%
Discount rate	8.70%	8.70%
Terminal value growth rate	1.00%	1.00%

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rates
- Steady growth rate used to extrapolate cash flows beyond the budget period

With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount as of December 31, 2016 and 2015.

Branch Licenses

Branch licenses of the Group arose from the acquisitions of CBSI, Unity Bank, and PDB. As of December 31, 2016 and 2015, details of branch licenses in the Group's and Parent Company's financial statements follow:

	Consolidated	Parent Company
Branch license from CBSI acquisition	₱477,600	₱455,000
Branch license from Unity Bank acquisition	347,400	–
Branch license from PDB acquisition (Note 10)	2,839,500	–
Total	₱3,664,500	₱455,000

The individual branches have been identified as the CGU for impairment testing of the branch licenses. The recoverable amounts of the CGUs for impairment testing of the branch licenses have been determined based on the fair value less cost to sell calculations.

Capitalized software costs
As of December 31, 2016 and 2015, the capitalized software costs of the Group amounted to ₱549.16 million and ₱322.19 million, respectively. Related accumulated amortization amounted to ₱123.94 million and ₱14.38 million as of December 31, 2016 and 2015, respectively. Additions for the year 2016 and 2015 amounted to ₱226.97 million and ₱322.19 million, respectively. Amortization expense for the year 2016 and 2015 amounted to ₱109.56 million and ₱14.38 million, respectively.

As of December 31, 2016 and 2015, the capitalized software costs of the Parent Company amounted to ₱445.45 million and ₱322.19 million, respectively. Related accumulated amortization amounted to ₱94.86 million and ₱14.38 million as of December 31, 2016 and 2015, respectively. Additions for the year 2016 and 2015 amounted to ₱123.26 million and ₱322.19 million, respectively. Amortization expense for the year 2016 and 2015 amounted to ₱80.48 million and ₱14.38 million, respectively.

14. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial assets				
Accounts receivable	**₱4,153,356**	₱3,197,971	**₱3,120,990**	₱2,706,935
SCR	**953,734**	1,022,116	**254,485**	283,282
RCOCI	**107,193**	122,019	**92,651**	122,019
Others	**437,919**	635,155	**136,374**	207,631
	5,652,202	4,977,261	**3,604,500**	3,319,867
Nonfinancial assets				
Net plan assets (Note 23)	**754,754**	785,818	**754,754**	785,818
Prepaid expenses	**155,016**	264,745	**146,036**	130,925
Creditable withholding taxes	**266,599**	188,574	**211,159**	49,983
Security deposit	**194,043**	142,345	**175,224**	115,025
Documentary stamps	**244,272**	129,067	**164,057**	127,195
Sundry debits	**84,824**	51,113	**62,736**	46,720
Miscellaneous	**263,371**	180,055	**–**	–
	1,962,879	1,741,717	**1,513,966**	1,255,666
	7,615,081	6,718,978	**5,118,466**	4,575,533
Allowance for impairment and credit losses (Note 15)	**(718,434)**	(741,589)	**(614,366)**	(626,103)
	₱6,896,647	₱5,977,389	**₱4,504,100**	₱3,949,430

Accounts receivable
As of December 31, 2016 and 2015, about 41.92% and 54.45%, respectively, of the Group's accounts receivable represents final withholding taxes (FWT) imposed by the Bureau of Internal Revenue (BIR) and withheld by the Bureau of Treasury (BTr) from the proceeds collected by the Group upon maturity of the Poverty Eradication and Alleviation Certificates (PEACe) bonds on October 18, 2011.

On October 17, 2011, the Parent Company together with seven other banks filed a joint petition against the BIR's decision to impose 20.00% FWT on PEACe bonds. The Supreme Court (SC) issued a temporary restraining order in favor of these banks on the same day and ordered these banks to place in escrow an amount equivalent to the disputed withholding tax until final decision is rendered. However, the BTr withheld the 20.00% FWT from the proceeds of the PEACe bonds and held it in an escrow account with the Land Bank of the Philippines.

On January 13, 2015, the SC ordered the BTr to release to the investor banks the amount corresponding to the 20% final withholding tax. On March 13, 2015, the BIR filed a motion for reconsideration and clarification. Pursuant to a resolution dated April 21, 2015 by the SC, the banks filed a consolidated comment on the motions filed by the respondents.

In an en banc ruling received on October 5, 2016, the SC upheld its October 2011 decision ordering the BTr to return the ₱4.97 billion to the petitioners and for the BTr to pay legal interest for failure to comply with the SC's earlier ruling in favor of the holders of the said bonds. In late October 2016, the Government filed a motion for partial reconsideration with regard to the October 2016 ruling.

In an en banc ruling received on January 17, 2017, the SC denied the motion for partial reconsideration. No further pleadings or motions shall be entertained by the SC.

Accounts receivable also includes non-interest bearing advances to officers and employees, with terms ranging from 1 to 30 days and receivables of the Parent Company from automated teller machine (ATM) transactions of clients of other banks that transacted through any of the Parent Company's ATM terminals.

Miscellaneous
Miscellaneous consists mainly of unissued stationery and supplies, inter-office float items, and deposits for various services.

The following tables present the reconciliation of the movement of the allowance for impairment and credit losses on other assets:

	Consolidated			
	Accounts Receivable	**SCR**	**Miscellaneous**	**2016 Total**
Balance at beginning of year	**₱521,705**	**₱54,787**	**₱165,097**	**₱741,589**
Provisions (recoveries) during the year (Note 15)	**49,453**	**75**	**36,027**	**85,555**
Transfers/others (Note 9)	**(134,407)**	**5,788**	**19,909**	**(108,710)**
Balance at end of year	**₱436,751**	**₱60,650**	**₱221,033**	**₱718,434**

	Consolidated			
	Accounts Receivable	SCR	Miscellaneous	2015 Total
Balance at beginning of year	₱513,416	₱34,224	₱158,542	₱706,182
Provisions during the year (Note 15)	16,384	19,703	3,813	39,900
Transfers/others (Note 9)	(8,095)	860	2,742	(4,493)
Balance at end of year	₱521,705	₱54,787	₱165,097	₱741,589

	Parent Company			
	Accounts Receivable	**SCR**	**Miscellaneous**	**2016 Total**
Balance at beginning of year	**₱444,444**	**₱25,809**	**₱155,850**	**₱626,103**
Provisions (recoveries) during the year (Note 15)	**24,986**	–	**79**	**25,065**
Transfers/others (Note 9)	**(72,838)**	**4,527**	**31,509**	**(36,802)**
Balance at end of year	**₱396,592**	**₱30,336**	**₱187,438**	**₱614,366**

	Parent Company			
	Accounts Receivable	SCR	Miscellaneous	2015 Total
Balance at beginning of year	₱459,950	₱25,809	₱155,899	₱641,658
Provisions (recoveries) during the year (Note 15)	(434)	–	76	(358)
Transfers/others (Note 9)	(15,072)	–	(125)	(15,197)
Balance at end of year	₱444,444	₱25,809	₱155,850	₱626,103

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

Changes in the allowance for impairment and credit losses are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Balances at beginning of year				
Loans and receivables	**₱6,994,670**	₱6,734,550	**₱6,151,786**	₱6,225,088
Investment properties	**1,287,811**	1,343,304	**1,206,418**	1,214,237
Accrued interest receivable	**69,331**	79,077	**68,342**	78,532
AFS financial assets	**38,742**	38,742	**6,323**	6,323
Bank premises, furniture, fixtures and equipment	**2,070**	2,743	–	–
Other assets	**741,589**	706,182	**626,103**	641,658
	9,134,213	8,904,598	**8,058,972**	8,165,838
Provisions charged to operations	**850,546**	966,574	**521,475**	487,485
Accounts charged off and others	**(977,248)**	(736,959)	**(912,296)**	(594,351)
	(126,702)	229,615	**(390,821)**	(106,866)
Balances at end of year				
Loans and receivables (Note 9)	**6,654,995**	6,994,670	**5,709,025**	6,151,786
Investment properties (Note 12)	**1,412,971**	1,287,811	**1,206,418**	1,206,418
Accrued interest receivable	**179,339**	69,331	**62,019**	68,342
AFS financial assets (Note 8)	**38,742**	38,742	**6,323**	6,323
Bank premises, furniture, fixtures and equipment (Note 11)	**2,371**	2,070	–	–
Other assets (Note 14)	**718,434**	741,589	**614,366**	626,103
	₱9,006,852	₱9,134,213	**₱7,598,151**	₱8,058,972

At the current level of allowance for impairment and credit losses, management believes that the Group has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its loans and receivables and other risk assets.

The separate valuation allowance of acquired loans and receivables from PDB amounting to ₱1.59 billion was not recognized by the Group on the effectivity date of acquisition as these receivables were measured at fair value at acquisition date. Any uncertainties about future cash flows of these receivables were included in their fair value measurement. Also, the separate valuation allowance of acquired investment properties from PDB amounting to ₱199.15 million was not recognized by the Group on the effectivity date of acquisition as these properties were measured at fair value on acquisition date.

A reconciliation of the allowance for credit losses on loans and receivables from customers, AFS financial assets and accrued interest receivable follows:

	Consolidated 2016						
	Loans and Receivables					AFS Financial Assets	
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities	Accrued Interest Receivable
Balance at beginning of year	₱5,289,222	₱1,313,023	₱390,326	₱2,099	₱6,994,670	₱38,742	₱69,331
Provisions (recoveries) during the year	311,242	410,941	(258)	689	722,614	-	43,174
Transfers/others	(1,007,077)	(92504)	(112,445)	149,737	(1,062,289)	(4,464)	66,834
Balance at end of year	₱4,593,387	₱1,631,460	₱277,623	₱152,525	₱6,654,995	₱34,298	₱179,339
Individual impairment	₱1,462,699	₱729,796	₱145,476	₱151,836	₱2,489,807	₱38,302	₱179,339
Collective impairment	3,130,688	901,664	132,147	689	4,165,188	-	-
	₱4,593,387	₱1,631,460	₱277,623	₱152,525	₱6,654,995	₱38,298	₱179,339

	Consolidated 2015						
	Loans and Receivables					AFS Financial Assets	
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities	Accrued Interest Receivable
Balance at beginning of year	₱5,066,065	₱959,999	₱708,387	₱99	₱6,734,550	₱38,742	₱79,077
Provisions (recoveries) during the year	318,146	593,478	6,874	2,085	920,583	59	(601)
Transfers/others	(94,989)	(240,454)	(324,935)	(85)	(660,463)	(59)	(9,145)
Balance at end of year	₱5,289,222	₱1,313,023	₱390,326	₱2,099	₱6,994,670	₱38,742	₱69,331
Individual impairment	₱2,082,499	₱837,178	₱261,589	₱14	₱3,181,280	₱38,742	₱69,331
Collective impairment	3,206,723	475,845	128,737	2,085	3,813,390	–	–
	₱5,289,222	₱1,313,023	₱390,326	₱2,099	₱6,994,670	₱38,742	₱69,331

	Parent Company 2016						
	Loans and Receivables					AFS Financial Assets	
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities	Accrued Interest Receivable
Balance at beginning of year	₱5,053,830	₱707,616	₱390,327	₱14	₱6,151,786	₱6,323	₱68,342
Provisions (recoveries) during the year	266,007	230,000	(258)	689	496,437	-	(27)
Transfers/others	(938,711)	123,749	(124,222)	(14)	(939,198)	-	(6,296)
Balance at end of year	₱4,381,126	₱1,061,364	₱265,846	₱689	₱5,709,025	₱6,323	₱62,019
Individual impairment	1,292,911	729,796	137,109	-	2,159,816	6,323	₱62,019
Collective impairment	3,088,214	331,569	128,737	689	3,549,209	-	-
	₱4,381,126	₱1,061,364	₱265,846	₱689	₱5,709,025	₱6,323	₱62,019

	Parent Company 2015						
	Loans and Receivables					AFS Financial Assets	
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities	Accrued Interest Receivable
Balance at beginning of year	₱4,842,834	₱673,853	₱708,387	₱14	₱6,225,088	₱6,323	₱78,532
Provisions (recoveries) during the year	282,013	200,000	6,874	–	488,887	–	(1,044)
Transfers/others	(71,017)	(166,237)	(324,935)	–	(562,189)	–	(9,146)
Balance at end of year	₱5,053,830	₱707,616	₱390,326	₱14	₱6,151,786	₱6,323	₱68,342
Individual impairment	₱1,856,131	₱440,394	₱261,589	₱14	₱2,558,128	₱6,323	₱68,342
Collective impairment	3,197,699	267,222	128,737	–	3,593,658	–	–
	₱5,053,830	₱707,616	₱390,326	₱14	₱6,151,786	₱6,323	₱68,342

16. **Deposit Liabilities**

As of December 31, 2016 and 2015, 39.42% and 40.66% respectively, of the total deposit liabilities of the Group are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates ranging from 0.13% to 3.25% in 2016, 0.13% to 2.75% in 2015 and 2014.

Interest Expense on Deposit Liabilities
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Demand	**₱197,595**	₱ 165,228	₱147,535	**₱143,917**	₱122,277	₱ 109,131
Savings	**2,635,565**	1,823,468	1,810,273	**2,383,021**	1,570,706	1,638,312
Time	**1,998,395**	2,019,592	2,058,910	**1,102,189**	1,188,183	1,157,255
	₱4,831,555	₱4,008,288	₱4,016,718	**₱3,629,127**	₱2,881,166	₱2,904,698

BSP Circular No. 830 requires reserves against deposit liabilities. As of December 31, 2016 and 2015, due from BSP amounting to ₱78.78 billion and ₱61.43 billion, respectively, were set aside as reserves for deposit liabilities per latest report submitted by the Parent Company to the BSP. As of December 31, 2016 and 2015, the Parent Company is in compliance with such regulation.

On August 3, 2016, the BOD of the Parent Company approved the issuance of Long Term Negotiable Certificates of Deposits (LTNCD) of up to 20.00 billion in tranches of 5.00 billion to 10.00 billion each and with tenors ranging from 5 to 7 years to support the Group's strategic initiatives and business growth. October 27, 2016, the Monetary Board of the BSP approved the LTNCD issuances. On November 18, 2016, the Parent Company issued at par LTNCDs with aggregate principal amount of ₱9.58 billion due May 18, 2022. The LTNCDs are included under the 'Time deposit liabilities' account. The LTNCDs bear a fixed coupon rate of 3.25% per annum, payable quarterly in arrears.

17. **Bills Payable**

Bills Payable
The Group's and the Parent Company's bills payable consist of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Interbank loans payable	**₱16,954,998**	₱18,422,442	**₱16,954,998**	₱18,422,442
Government lending programs	–	662,738	–	208
	₱16,954,998	₱19,085,180	**₱16,954,998**	₱18,422,650

Interbank loans payable
Interbank loans payable consists of short-term dollar-denominated borrowings of the Group and the Parent Company with annual interest ranging from 1.25% to 1.68% in 2016 and 2015.

As of December 31, 2016, the carrying amount of foreign currency-denominated HTM and AFS financial assets pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱8.96 billion and ₱0.53 billion, respectively. The fair value of HTM financial assets pledged as collateral amounted to ₱8.41 billion as of December 31, 2016 (Note 8).

As of December 31, 2015, the carrying amount of foreign currency-denominated HTM and AFS financial assets pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱8.09 billion and ₱4.72 billion, respectively. The fair value of HTM financial assets pledged as collateral amounted to ₱8.66 billion as of December 31, 2015 (Note 8).

As of December 31, 2016 and 2015, margin deposits amounting to ₱74.68 million and ₱561.21million, respectively, are deposited with various counterparties to meet the collateral requirements for its interbank bills payable.

Interbank loans payable includes a US$158.00 million unsecured, three-year term loan facility from regional and international banks. The facility carries an interest margin of 1.40% per annum over 3-month LIBOR. The term of the loan provides for a financial covenant such that the Parent Company shall ensure that its minimum capital adequacy ratio (CAR) will, at all times, be equal to or greater of (a) the percentage prescribed by BSP from time to time and (b) 10.00%. Otherwise, the loan shall become immediately due and payable. The borrowing was measured initially at fair value and was subsequently carried at amortized cost. As of December 31, 2016 and 2015, the carrying value of the loan amounted to ₱7.81 billion and ₱7.37 billion respectively.

Government lending programs
As of December 31, 2015, this account consists of:

Counterparty	Average term	Rates	Consolidated	Parent Company
Land Bank of the Philippines	5 -10 years	3.50% to 8.66%	₱460,768	₱208
Social Security Services	6 years	2.50% to 5.25%	178,056	–
Small Business Guaranty and Finance Corporation	4 years	5.00% to 6.50%	23,914	–
			₱662,738	₱208

Loans and receivables of the Group and the Parent Company amounting to ₱760.38 million and ₱0.21 million as of December 31, 2015, respectively, are pledged as collateral for the rediscounting facilities (Note 9). Loans and receivables pledged as collateral shall be released by the rediscounting institution once the rediscounted loan has been fully paid upon maturity. In case a particular loan account pledged as collateral is paid in full by the borrower before it matures, the equivalent discount value shall be paid by the Group to the rediscounting institution before the pledged collateral can be released.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	**2015**
Accrued payable for employee benefits	**₱789,691**	₱725,273	**₱786,014**	₱724,134
Accrued interest payable	**552,881**	384,114	**464,741**	293,213
Accrued lease payable	**121,139**	111,078	**119,950**	107,237
Accrued taxes and other licenses	**87,156**	77,658	**77,837**	74,188
Accrued other expenses payable	**317,323**	286,151	**112,809**	62,223
	₱1,868,190	₱1,584,274	**₱1,561,351**	₱1,260,995

19. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2016	**2015**	2016	**2015**
Financial liabilities				
Accounts payable	**₱2,801,269**	₱2,107,169	**₱1,731,365**	₱1,261,933
Acceptances payable	**1,172,158**	997,418	**1,172,158**	997,418
Due to PDIC	**428,308**	345,805	**428,308**	345,805
Other credits-dormant	**318,701**	218,635	**304,036**	214,220
Due to the Treasurer of the Philippines	**28,131**	95,838	**23,716**	95,838
Margin deposits	**1,702**	3,356	**1,702**	3,356
Miscellaneous	**488,139**	636,121	**428,532**	419,288
	5,238,408	4,404,342	**4,089,817**	3,337,858
Nonfinancial liabilities				
Withholding taxes payable	**150,814**	137,523	**115,928**	107,906
Retirement liabilities (Note 23)	**144,686**	164,256	–	–
	295,500	301,779	**115,928**	107,906
	₱5,533,908	₱4,706,121	**₱4,205,745**	₱3,445,764

Accounts payable includes payables to suppliers and service providers, and loan payments and other charges received from customers in advance.

Miscellaneous mainly includes sundry credits, inter-office float items, and dormant deposit accounts.

20. **Other Operating Income and Miscellaneous Expenses**

Service Charges, Fees and Commissions
Details of this account are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Service and collection charges						
Deposits	**₱597,294**	₱628,191	₱659,597	**₱535,397**	₱572,448	₱610,332
Loans	**214,237**	170,070	97,683	**40,301**	34,785	30,743
Remittances	**302,184**	248,615	132,939	**302,184**	248,615	132,939
Others	**114,791**	169,744	176,556	**93,452**	90,019	70,257
Fees and commissions	**894,963**	617,698	495,032	**348,114**	510,273	376,378
	₱2,123,469	₱1,834,318	₱1,561,807	**₱1,319,448**	₱1,456,140	₱1,220,649

Trading and Securities Gain - Net
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Financial assets at FVPL:						
Held-for-trading (Note 8)	**(₱135,709)**	(₱50,330)	₱28,505	**(₱138,286)**	(₱48,087)	(₱45,421)
Financial assets designated at FVPL (Note 8)	**111,615**	(120,134)	(40,401)	**111,615**	(120,134)	(40,401)
Derivative assets (Note 24)	**23,510**	(1,425)	3,065	**23,510**	(1,425)	3,065
AFS financial assets	**918,673**	638,723	544,094	**856,031**	629,642	541,653
	₱918,089	₱466,834	₱535,263	**₱852,870**	₱459,996	₱458,896

Miscellaneous Income
Details of this account are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Bancassurance (Note 10)	**₱383,483**	₱337,521	₱277,138	**₱383,483**	₱337,407	₱277,138
Dividends (Note 8)	**193,229**	263,330	311,073	**193,229**	255,407	311,073
Rental on bank premises	**91,591**	51,731	56,183	**67,134**	39,516	28,642
Fund transfer fees	**50,658**	56,621	48,792	**50,658**	56,621	48,792
Rental safety deposit boxes	**24,627**	23,139	20,017	**24,269**	22,768	19,385
Recovery of charged off assets	**18,734**	15,620	93,797	**10,523**	7,943	79,256
Miscellaneous income (Notes 10, 11 and 12)	**116,123**	218,893	781,064	**70,801**	172,291	626,940
	₱878,445	₱966,855	₱1,588,064	**₱800,097**	₱891,953	₱1,391,226

Miscellaneous Expenses
Details of this account are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Service charges	**₱225,889**	₱181,216	₱86,067	**₱225,889**	₱181,216	₱86,067
Information technology	**108,458**	371,949	326,718	**227,627**	280,973	236,261
Litigations	**117,363**	100,947	149,996	**43,261**	26,486	61,452
Freight	**34,331**	25,534	18,405	**27,354**	21,338	13,970
Membership fees and dues	**29,329**	17,012	19,228	**28,135**	14,861	17,698
Clearing and processing fee	**27,379**	14,337	23,143	**24,525**	11,591	16,784
Broker's fee	**12,403**	22,970	52,215	**12,403**	22,970	25,959
Miscellaneous expense	**518,834**	267,969	346,027	**352,295**	241,307	267,122
	₱1,073,986	₱1,001,934	₱1,021,799	**₱941,489**	₱800,742	₱725,313

21. Maturity Analysis of Assets and Liabilities

The following tables present both the Group's and Parent Company's assets and liabilities as of December 31, 2015 and 2014 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting date:

	Consolidated					
	2016			2015		
	Within Twelve Months	Over Twelve Months	Total	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	**₱12,010,543**	**₱–**	**₱12,010,543**	₱11,377,101	₱–	₱11,377,101
Due from BSP	**91,964,495**	**–**	**91,964,495**	86,318,501	–	86,318,501
Due from other banks	**11,332,236**	**–**	**11,332,236**	21,243,492	–	21,243,492
Interbank loans receivables	**3,451,543**	**–**	**3,451,543**	–	–	–
Financial assets at FVPL	**7,703,899**	**–**	**7,703,899**	6,244,593	–	6,244,593
AFS financial assets - gross	**11,849,322**	**22,063,143**	**33,912,465**	1,370,480	47,497,495	48,867,975
HTM financial assets	**2,112,503**	**55,292,297**	**57,404,800**	8,596,143	7,540,004	16,136,147
Loans and receivables - gross	**150,962,924**	**242,775,212**	**393,738,136**	155,520,631	161,514,151	317,034,782
Accrued interest receivable - gross	**3,193,868**	**–**	**3,193,868**	2,691,068	–	2,691,068
Other assets - gross	**4,698,468**	**953,734**	**5,652,202**	3,955,145	1,022,116	4,977,261
	299,279,801	**321,084,386**	**620,364,187**	297,317,154	217,573,766	514,890,920
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment - net of accumulated depreciation and amortization	**–**	**6,498,639**	**6,498,639**	–	6,356,189	6,356,189
Investment properties - net of accumulated depreciation	**–**	**6,762,710**	**6,762,710**	–	6,685,950	6,685,950
Deferred tax assets	**–**	**1,666,267**	**1,666,267**	–	1,381,280	1,381,280
Investments in associates	**–**	**278,752**	**278,752**	–	371,399	371,399
Intangible assets	**–**	**4,089,715**	**4,089,715**	–	3,972,308	3,972,308
Goodwill	**–**	**839,748**	**839,748**	–	839,748	839,748
Other assets - gross	**944,754**	**1,015,932**	**1,960,686**	775,844	965,873	1,741,717
	944,754	**21,151,763**	**22,096,517**	775,844	20,572,747	21,348,591
Allowance for impairment and credit losses (Note 15)			**(9,006,852)**			(9,134,213)
Unearned discounts (Note 9)			**(255,841)**			(278,335)
			(9,262,693)			(9,412,548)
			₱633,198,011			₱526,826,963
Financial liabilities						
Deposit liabilities	**₱513,517,732**	**₱28,065,286**	**₱541,583,018**	₱412,650,027	₱26,615,659	₱439,265,686
Bills payable	**16,954,998**	**–**	**16,954,998**	11,062,703	8,022,477	19,085,180
Manager's checks	**2,029,778**	**–**	**2,029,778**	1,456,498	–	1,456,498
Accrued interest and other expenses*	**870,204**	**–**	**870,204**	670,265	–	670,265
Derivative liabilities	**243,198**	**–**	**243,198**	66,373	–	66,373
Other liabilities	**5,238,408**	**–**	**5,238,408**	4,404,342	–	4,404,342
	538,854,318	**28,065,286**	**566,919,604**	430,310,208	34,638,136	464,948,344
Nonfinancial liabilities						
Accrued interest and other expenses	**87,156**	**910,830**	**997,986**	802,931	111,078	914,009
Deferred tax liabilities	**–**	**1,161,414**	**1,161,414**	–	1,116,147	1,116,147
Income tax payable	**437,303**	**–**	**437,303**	375,780	–	375,780
Other liabilities	**150,814**	**144,686**	**295,500**	137,523	164,256	301,779
	₱539,529,591	**₱30,282,216**	**₱569,811,807**	₱431,626,442	₱36,029,617	₱467,656,059

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 18).

	Parent Company					
	2016			2015		
	Within Twelve Months	**Over Twelve Months**	**Total**	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	**₱10,580,748**	**₱–**	**₱10,580,748**	₱10,052,891	₱–	₱10,052,891
Due from BSP	**85,307,128**	**–**	**85,307,128**	77,003,616	–	77,003,616
Due from other banks	**9,689,165**	**–**	**9,689,165**	19,200,544	–	19,200,544
Interbank loans receivables/SPURA	**2,958,465**	**–**	**2,958,465**	–	–	–
Financial assets at FVPL	**7,232,882**	**–**	**7,232,882**	5,465,417	–	5,465,417
AFS financial assets - gross	**11,159,904**	**20,000,169**	**31,160,073**	1,205,447	45,635,075	46,840,522
HTM financial assets	**2,087,861**	**51,981,160**	**54,069,021**	8,515,233	5,430,412	13,945,645
Loans and receivables - gross	**131,527,458**	**203,449,468**	**334,976,926**	134,470,413	131,495,001	265,965,414
Accrued interest receivable - gross	**2,728,373**	**–**	**2,728,373**	2,269,589	–	2,269,589
Other assets - gross	**3,350,015**	**254,485**	**3,604,500**	3,036,585	283,282	3,319,867
	266,621,999	**275,685,282**	**542,307,281**	261,219,735	182,843,770	444,063,505
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment - net of accumulated depreciation and amortization	**–**	**5,143,981**	**5,143,981**	–	4,997,202	4,997,202
Investment properties - net of accumulated depreciation	**–**	**2,967,294**	**2,967,294**	–	3,106,280	3,106,280
Deferred tax assets	**–**	**1,508,150**	**1,508,150**	–	1,369,147	1,369,147
Investments in subsidiaries	**–**	**12,169,037**	**12,169,037**	–	9,164,601	9,164,601
Investment in associates	**–**	**276,559**	**276,559**	–	371,399	371,399
Intangible assets	**–**	**805,582**	**805,582**	–	762,808	762,808
Goodwill	**–**	**222,841**	**222,841**	–	222,841	222,841
Other assets - gross	**759,212**	**754,754**	**1,513,966**	469,848	785,818	1,255,666
	759,212	**23,848,198**	**24,607,410**	469,848	20,780,096	21,249,944
Allowances for impairment and credit losses (Note 15)			**(7,598,152)**			(8,058,972)
Unearned discounts (Note 9)			**(198,042)**			(168,620)
			(7,796,194)			(8,227,592)
			₱559,143,914			₱457,085,857
Financial liabilities						
Deposit liabilities	**₱ 455,816,577**	₱15,145,414	**₱470,961,991**	₱368,242,423	₱5,360,993	₱373,603,416
Bills payable	**16,954,998**	**–**	**16,954,998**	11,053,287	7,369,363	18,422,650
Manager's checks	**1,445,585**	**–**	**1,445,585**	741,479	–	741,479
Accrued interest and other expenses*	**577,550**	**–**	**577,550**	355,436	–	355,436
Derivative liabilities	**243,198**	**–**	**243,198**	66,373	–	66,373
Other liabilities	**4,089,817**	**–**	**4,089,817**	3,337,858	–	3,337,858
	479,127,725	**15,145,414**	**494,273,139**	383,796,856	12,730,356	396,527,212
Nonfinancial liabilities						
Accrued interest and other expenses	**77,836**	**905,965**	**983,801**	798,322	107,237	905,559
Income tax payable	**354,212**	**–**	**354,212**	345,312	–	345,312
Other liabilities	**115,928**	**–**	**115,928**	107,906	–	107,906
	₱479,675,701	**₱16,051,379**	**₱495,727,080**	₱385,048,396	₱12,837,593	₱397,885,989

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 18).

22. **Equity**

The Parent Company's capital stock consists of (amounts in thousands, except for number of shares):

	2016		2015	
	Shares	**Amount**	**Shares**	**Amount**
Common stock - ₱10.00 par value				
Authorized – shares	**₱2,500,000,000**		₱2,500,000,000	
Issued and outstanding				
Balance at beginning of year	**1,853,728,497**	**₱18,537,285**	1,716,414,317	₱17,164,143
Stock dividends*	**148,299,339**	**1,482,993**	137,314,180	1,373,142
	₱2,002,027,836	**₱20,020,278**	₱1,853,728,497	₱18,537,285

*The stock dividends declared include fractional shares equivalent to 1,060 shares in 2016 and 1,035 shares in 2015.

The Parent Company shares are listed in the Philippine Stock Exchange.

On March 5, 2014, the BOD authorized the Parent Company to conduct a rights issue, by way of offering common shares to certain eligible shareholders. The BSP approved the stock rights offering on March 18, 2014.

The stock rights offering yielded a subscription of 161,609,878 common shares which were listed at the Philippine Stock Exchange on May 13, 2014. The total proceeds of the stock rights offering amounted to ₱7.93 billion, net of stock issuance cost of ₱67.53 million which was deducted from additional paid in capital.

The additional capital enabled the Parent Company to pursue growth strategies while ensuring that its capital adequacy levels remain above the new Basel III requirements, particularly in light of the acquisition of PDB.

On May 8, 2014, the BOD approved and the stockholders ratified the increase in the Parent Company's authorized capital stock from ₱20.00 billion to ₱25.00 billion, or from 2.00 billion to 2.50 billion shares with par value of ₱10.00 per share. The increase in the Parent Company's authorized capital stock was subsequently approved by the BSP and the SEC on August 7, 2014 and August 29, 2014, respectively.

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

Date of SEC Approval	Authorized Shares*
April 12, 1991	100,000
October 7, 1993	150,000
August 30, 1994	200,000
July 26, 1995	250,000
September 12, 1997	500,000
September 5, 2005	1,000,000
September 14, 2007	1,600,000
September 5, 2008	2,000,000
August 29, 2014	2,500,000

** Restated to show the effects of the ten-for-one stock split in 2012*

As reported by the Parent Company's transfer agent, Stock Transfer Service, Inc., the total number of stockholders is 1,959 and 1,980 as of December 31, 2016 and 2015, respectively.

Subsequent Events
On January 19, 2017, the BOD of CBCC approved the increase in authorized capital stock of CBCC from ₱500.00 million to ₱2.00 billion to enable CBCC to handle bigger deals. The approval was ratified by the BOD of the Parent Company on February 1, 2017. On the same date, the BOD of the Parent Company approved the capital infusion of ₱500.00 million to be paid within the first quarter of 2017.

On Febuary 22, 2017, the BOD of the Parent Company approved to undertake a stock rights offering through the issuance of new shares from the unissued shares of the Parent Company's authorized capital stock that will generate the aggregate issue of approximately ₱15.00 billion to all eligible stockholders.

Dividends
Details of the Parent Company's cash dividend payments follow:

Date of Declaration	Date of Record	Date of Payment	Stock Dividend Per Share	Cash Dividend Per Share
May 05, 2016	May 23, 2016	June 03, 2016	8%	1.00
May 07, 2015	August 12, 2015	September 09, 2015	8%	1.00
May 08, 2014	September 19, 2014	October 15, 2014	8%	1.00
May 02, 2013	July 19, 2013	August 14, 2013	10%	1.20

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2016 and 2015, surplus includes the amount of ₱1.28 billion, net of deferred tax liability of ₱547.40 million, representing transfer of revaluation increment on land which was carried at deemed cost when the Group transitioned to PFRS in 2005 (Note 11). This amount will be available to be declared as dividends upon sale of the underlying land.

In the consolidated financial statements, a portion of the Group's surplus corresponding to the net earnings of the subsidiaries and associates amounting to ₱607.74 million and ₱296.00 million as of December31, 2016 and 2015, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

Reserves
In compliance with BSP regulations, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock.

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes as of December 31, 2016 and 2015.

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 capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets (RWA), 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 but excluding insurance companies). Qualifying capital and RWA are computed based on BSP regulations. RWA consists of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On August 4, 2006, the BSP, under BSP Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their CAR using these guidelines.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso-denominated exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations, Corporates.

On January 15, 2013, the 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 took effect on January 1, 2014.

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 this ratio 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 upon the effectivity of Basel III. 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), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital 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.

The CAR of the Group and the Parent Company as of December 31, 2016 as reported to the BSP are shown in the table below.

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
	(Amounts in Million Pesos)			
CET 1 Capital	**₱58,170**	₱54,071	**₱57,409**	₱54,136
Less: Regulatory Adjustments	**7,338**	6,678	**13,169**	11,124
	50,832	47,393	**44,240**	43,012
Additional Tier 1 Capital	–	–	–	–
Less: Regulatory Adjustments	–	–	–	–
	–	–	–	–
Net Tier 1 Capital	**50,832**	47,393	**44,240**	43,012
Tier 2 Capital	**4,076**	3,486	**3,514**	2,955
Less: Regulatory Adjustments	–	–	–	–
Net Tier 2 Capital	**4,076**	3,486	**3,514**	2,955
Total Qualifying Capital	**₱54,909**	₱50,879	**₱47,754**	₱45,967

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
	(Amounts in Million Pesos)			
Credit RWA	**₱414,381**	₱348,149	**₱352,651**	₱294,883
Market RWA	**4,575**	2,770	**4,339**	2,274
Operational RWA	**30,727**	25,906	**25,689**	22,703
Total RWA	**₱449,683**	₱376,825	**₱382,679**	₱319,860
CET 1 capital ratio	**11.30%**	12.58%	**11.56%**	13.45%
Tier 1 capital ratio	**11.30%**	12.58%	**11.56%**	13.45%
Total capital ratio	**12.21%**	13.50%	**12.48%**	14.37%

On August 14, 2015, the MB of the BSP, in its Resolution No. 1292 approved the request of the Parent Company that PDB's compliance with the minimum capital ratios prescribed under Basel III framework be assessed based on the consolidated capital position of the Parent Company, CBSI and PDB up to one (1) year or upon issuance of the certified true copy of the Articles of Merger and Plan of Merger by the SEC, whichever comes earlier.

The Parent Company has complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements the BSP’s risk-based capital adequacy framework under Circular No. 538. In compliance with this circular, the Parent Company has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Parent Company. The level and structure of capital are assessed and determined in light of the Parent Company’s business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every March 31. The Group has complied with this requirement.

23. **Retirement Plan**

The Group has separate funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. The retirement plans are administered by the Parent Company's Trust Group which acts as the trustee of the plans. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plans were made as of December 31, 2016.

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The amounts of net defined benefit asset in the balance sheets follow:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Net plan assets (Note 14)	**₱754,754**	₱785,818	**₱754,754**	₱785,818
Retirement liabilities (Note 19)	**(144,686)**	(164,256)	**–**	–
	₱610,068	₱621,562	**₱754,754**	₱785,818

The movements in the defined benefit asset, present value of defined benefit obligation and fair value of plan assets follow:

	Consolidated											
	2016											
						Remeasurements in other comprehensive income						
		Net benefit cost										
	January 1, 2016	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2016
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)		(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,472,990	₱–	₱179,522	₱179,522	(₱644,384)	₱278,115	₱–	₱–	₱–	₱278,115	₱234,867	₱4,521,109
Present value of defined benefit obligation	3,851,428	302,347	148,206	450,553	(₱644,384)	–	72,293	165,252	15,900	253,444	–	3,911,041
Net defined benefit asset	₱621,562	(₱302,347)	₱31,316	(₱271,031)	₱–	₱278,115	(₱72,293)	(₱165,252)	(₱15,900)	₱24,671	₱234,867	₱610,068

**Presented under Compensation and fringe benefits in the statements of income.*

	Consolidated										
	2015										
			Remeasurements in other comprehensive income								
		Net benefit cost									
	January 1, 2015	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2015
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,678,994	₱–	₱212,682	₱212,682	(₱253,042)	(₱402,428)	₱–	₱–	(₱402,428)	₱236,784	₱4,472,990
Present value of defined benefit obligation	4,058,096	386,634	139,272	525,906	(253,042)	–	(257,512)	(222,020)	(479,532)	–	3,851,428
Net defined benefit asset	₱620,898	(₱386,634)	₱73,410	(₱313,224)	₱–	(₱402,428)	₱257,512	₱222,020	₱77,104	₱236,784	₱621,562

**Presented under Compensation and fringe benefits in the statements of income.*

	Parent Company 2016										
		Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2016	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2016
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱3,892,350	₱–	₱173,210	₱173,210	(₱183,784)	₱284,221	₱–	₱–	₱284,221	₱150,000	₱4,315,997
Present value of defined benefit obligation	3,106,532	288,262	138,241	426,503	(183,784)		49,966	162,025	211,991		3,561,243
Net defined benefit asset	₱785,818	₱(288,262)	₱34,969	₱ (253,293)	₱–	₱284,221	(₱49,966)	₱(162,025)	₱72,230	₱150,000	₱754,754

Presented under Compensation and fringe benefits in the statements of income.

	Parent Company 2015										
		Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2015	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2015
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,234,605	₱–	₱192,251	₱192,251	(₱209,041)	(₱377,193)	₱–	₱–	(₱377,193)	₱51,727	₱3,892,349
Present value of defined benefit obligation	3,307,934	294,405	104,755	399,160	(209,041)	–	(165,875)	(225,647)	(391,522)	–	3,106,531
Net defined benefit asset	₱926,671	(₱294,405)	₱87,496	(₱206,909)	₱–	₱(377,193)	₱165,875	₱225,647	₱14,329	₱51,727	₱785,818

Presented under Compensation and fringe benefits in the statements of income.

The Parent Company does not expect to contribute to its defined benefit pension plan in 2017.

In 2016 and 2015, the major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Parent Company shares (Note 28)	**40.13%**	36.77%	**42.04%**	42.26%
Equity instruments	**21.76%**	17.49%	**22.18%**	19.17%
Cash and cash equivalents	**6.13%**	16.44%	**3.57%**	6.70%
Debt instruments	**16.19%**	15.30%	**15.67%**	16.44%
Other assets	**15.79%**	14.00%	**16.54%**	15.43%
	100.00%	100.00%	**100.00%**	100.00%

The following table shows the breakdown of fair value of the plan assets:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Due from BSP	**₱53,580**	₱189,819	**₱46,000**	₱187,484
Deposits in banks	**223,432**	545,480	**108,259**	73,437
Financial assets at FVPL	**976,684**	754,054	**956,163**	739,208
AFS financial assets				
Quoted debt securities	**555,553**	566,644	**515,123**	545,799
Quoted equity securities	**7,054**	28,117	**5,481**	6,781
Parent Company shares	**1,814,531**	1,644,750	**1,814,531**	1,644,750
Investments in unit investment trust fund	**167,840**	109,098	**152,278**	85,382
Corporate bonds	**8,750**	8,750	**8,750**	8,750
Loans and receivable	**553,339**	454,738	**552,379**	453,881
Investment properties*	**147,154**	161,148	**143,799**	136,568
Other assets	**13,284**	10,392	**13,234**	10,309
	₱4,521,201	₱4,472,990	**₱4,315,997**	₱3,892,349

* Investment properties comprise properties located in Manila.

The carrying value of the plan assets of the Group and Parent Company amounted to ₱4.52 billion and ₱4.32 billion, respectively, as of December 31, 2016, and ₱4.47 billion and ₱3.89 billion, respectively, as of December 31, 2015.

The principal actuarial assumptions used in 2016 and 2015 in determining the retirement liability for the Group's and Parent Company's retirement plans are shown below:

	2016				
	Parent	**CBSI**	**CIBI**	**CBC-PCCI**	**CBCC**
Discount rate:					
January 1	**4.45%**	**4.99%**	**5.10%**	**5.10%**	**–**
December 31	**4.79%**	**5.08%**	**5.14%**	**5.14%**	**5.19%**
Salary increase rate	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**

	2015				
	Parent	CBSI	PDB	CIBI	CBC-PCCI
Discount rate:					
January 1	4.54%	4.66%	4.60%	4.49%	4.56%
December 31	4.45%	4.99%	4.23%	5.10%	5.10%
Salary increase rate	5.00%	5.00%	5.00%	5.00%	5.00%

The sensitivity analysis below has been determined based on the impact of reasonably possible changes of each significant assumption on the defined benefit liability as of the end of the reporting period, assuming all other assumptions were held constant:

December 31, 2016	**Parent**	**CBSI**	**CIBI**	**CBC-PCCI**	**CBCCC**
Discount rate					
(+1%)	**(₱246,034)**	**(₱35,473)**	**(₱1,566)**	**(₱9,072)**	**(₱814)**
(-1%)	**330,859**	**45,560**	**2,073**	**12,454**	**1,025**
Salary increase rate					
(+1%)	**310,338**	**43,290**	**1,946**	**11,854**	**983**
(-1%)	**(237,969)**	**(34,585)**	**(1,522)**	**(8,860)**	**(799)**

December 31, 2015	Parent	CBSI	CIBI	CBC-PCCI	CBCC
Discount rate					
(+1%)	(₱186,222)	(₱41,329)	(₱1,072)	(₱3,644)	₱–
(-1%)	267,709	59,118	1,566	7,690	–
Salary increase rate					
(+1%)	252,451	55,498	1,496	7,354	–
(-1%)	(181,218)	(40,226)	(1,059)	(3,596)	–

The weighted average duration of the defined benefit obligation are presented below:

	December 31, 2016	December 31, 2015
Parent Company	**13**	13
CBSI	**18**	18
CIBI	**19**	19
CBC-PCCI	**19**	19
CBCC	**22**	–

The maturity analyses of the undiscounted benefit payments as of December 31, 2016 and 2015 are as follows:

December 31, 2016	**Parent**	**CBSI**	**CIBI**	**CBC-PCCI**	**CBCC**
1 year and less	**₱884,693**	**₱9,290**	**₱–**	**₱–**	**₱–**
More than 1 year to 5 years	**846,426**	**64,223**	**1,571**	**20,508**	**–**
More than 5 years to 10 years	**2,115,399**	**140,944**	**12,533**	**41,384**	**7,925**
More than 10 years to 15 years	**2,680,694**	**541,073**	**25,081**	**41,182**	**13,494**
More than 15 years to 20 years	**3,146,044**	**1,023,406**	**–**	**159,992**	**104,806**
More than 20 years	**21,735,037**	**8,360,827**	**393,003**	**1,173,627**	**275,604**

December 31, 2015	**Parent**	**CBSI**	**CIBI**	**CBC-PCCI**	**CBCC**
1 year and less	₱836,930	₱72,141	₱–	₱8,632	₱–
More than 1 year to 5 years	634,991	183,285	1,385	19,074	–
More than 5 years to 10 years	1,719,371	295,106	8,509	32,982	–
More than 10 years to 15 years	2,426,865	560,349	16,035	13,614	–
More than 15 years to 20 years	2,340,344	1,126,570	2,048	98,631	–
More than 20 years	15,244,682	5,923,431	282,416	766,434	–

24. Derivative Financial Instruments

Occasionally, the Parent Company enters into forward exchange contracts as an accommodation to its clients. These derivatives are not designated as accounting hedges. The aggregate notional amounts of the outstanding buy US dollar currency forwards as of December 31, 2016 and 2015 amounted to US$148.58 million and US$287.67 million, respectively, while the sell US dollar forward contracts amounted to US$197.06 million and US$440.00 million, respectively. Weighted average buy US dollar forward rate as of December 31, 2016 and 2015 is ₱46.76, while the weighted average sell US dollar forward rates are ₱44.26 and ₱47.32, respectively.

The aggregate notional amounts of the outstanding buy Euro currency forwards as of December 31, 2016 and 2015 amounted to €2 million and nil, respectively while the aggregate notional amounts of the outstanding sell Euro currency forwards as of the December 31, 2016 and 2015 amounted to €6 million and €241.02 million, respectively. The weighted average buy Euro forward rates as of December 31, 2016 ₱53.40 while the weighted average sell Euro forward rate as of December 31, 2016 and 2015 are ₱51.85 and ₱51.68, respectively.

The aggregate notional amounts of the outstanding buy Hongkong dollars (HKD) currency forwards as of December 31, 2016 amounted to HKD155.15 million. The weighted average buy HKD forward rates as of December 31, 2016 is ₱6.41.

The aggregate notional amounts of the outstanding sell Chinese Yuan (CNY) currency forwards as of December 31, 2016 amounted to CNY34.91 million. The weighted average sell CNYforward rates as of December 31, 2016 is ₱7.12.

The aggregate notional amounts of the outstanding IRS as of December 31, 2016 and 2015 amounted to ₱10.82 billion and ₱6.95 billion, respectively.

As of December 31, 2016 and 2015, the fair values of derivatives follow:

	2016		2015	
	Derivative Asset	**Derivative Liability**	Derivative Asset	Derivative Liability
Currency forwards	**₱176,513**	**₱213,788**	₱283,112	₱35,876
IRS	**30,065**	**29,410**	7,624	30,497
Warrants	**9,710**	–	9,190	–
	₱216,288	**₱243,198**	₱299,926	₱66,373

Fair Value Changes of Derivatives
The net movements in fair value changes of derivative instruments are as follows:

	2016	2015
Balance at beginning of year	**₱233,553**	₱187,947
Fair value changes during the year	**(183,640)**	316,442
Settled transactions	**(76,823)**	(270,836)
Balance at end of year	**(₱26,910)**	₱233,553

The net movements in the value of the derivatives are presented in the statements of income under the following accounts:

	2016	2015	2014
Foreign exchange gain (loss)	**(₱283,994)**	₱47,031	(₱155,824)
Trading and securities gain (loss)* (Note 20)	**23,510**	(1,425)	3,065
	(₱260,484)	₱45,606	(₱152,759)

*Net movements in the value related to embedded credit derivatives and IRS.

25. **Lease Contracts**

The lease contracts are for periods ranging from one to 25 years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%.

Annual rentals on these lease contracts included in 'Occupancy cost' in the statements of income in 2016, 2015 and 2014 amounted to ₱681.05 million, ₱615.00 million and ₱522.00 million, respectively, for the Group, and ₱450.53 million, ₱396.88 million and ₱349.00 million, respectively, for the Parent Company.

Future minimum rentals payable of the Group and the Parent Company under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱573,623**	₱468,972	**₱506,446**	₱394,965
After one year but not more than five years	**1,900,916**	1,465,118	**1,677,595**	1,204,976
After five years	**1,152,237**	785,931	**724,682**	484,064
	₱3,626,776	₱2,720,021	**₱2,908,723**	₱2,084,005

The Group and the Parent Company have also entered into commercial property leases on its investment properties (Note 12).

Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱5,044**	₱5,465	**₱4,865**	₱2,792
After one year but not more than five years	**22,047**	38,575	**2,977**	5,670
After more than five years	**27,653**	23,867	**–**	–
	₱54,743	₱67,907	**₱7,842**	₱8,462

26. **Income and Other Taxes**

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. 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. 9337, An Act Amending National Internal Revenue Code, provides that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, 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% gross income tax.

Interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50%, while all other income of the FCDU is subject to the 30.00% corporate tax.

On March 15, 2011, the BIR issued Revenue Regulation (RR) No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU and within RBU. Pursuant to the regulations, the Parent Company made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Parent Company's net revenue.

The provision for income tax consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Current						
Final tax	**₱498,750**	₱435,649	₱575,434	**₱458,011**	₱417,227	₱472,387
RCIT	**907,782**	1,007,447	888,188	**785,800**	941,923	871,033
MCIT	**-**	29,935	34,693	**-**	–	–
	1,406,532	1,473,031	1,498,315	**1,243,811**	1,359,150	1,343,420
Deferred	**(279,980)**	(663,062)	66,612	**(160,672)**	(531,080)	65,412
	₱1,126,552	₱809,969	₱1,564,927	**₱1,083,139**	₱828,070	₱1,408,832

The details of net deferred tax assets (liabilities) follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deferred tax assets (liabilities) on				
Allowance for impairment and credit losses	**₱2,429,146**	₱2,149,489	**₱2,249,967**	₱2,123,705
Revaluation increment on land	**(547,405)**	(547,405)	**(547,405)**	(547,405)
Fair value adjustment on asset foreclosure and dacion transactions - net of depreciated portion	**(91,030)**	(34,821)	**32,014**	28,592
Net defined benefit asset	**(183,020)**	(186,469)	**(226,426)**	(235,745)
Fair value adjustments on net assets (liabilities) of PDB and Unity Bank	**(1,102,839)**	(1,115,661)	**–**	–
	₱504,852	₱265,133	**₱1,508,150**	₱1,369,147

The Group did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Allowance for impairment and credit losses	**₱909,699**	₱1,969,250	**₱98,262**	₱979,955
NOLCO	**228,929**	467,368	–	–
Excess of MCIT over RCIT	**40,339**	97,607	–	–
Accrued compensated absences	**32,416**	291,386	**53,003**	65,993
Others	**62,280**	43,688	–	–
	₱1,273,663	₱2,869,299	**₱151,265**	₱1,045,948

As of December 31, 2015, details of the Group's NOLCO are as follows:

Inception Year	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2013	238,439	–	238,439	-	2016
2014	177,085	–	–	177,085	2017
2015	51,844	–	–	51,844	2018
	₱467,368	**₱–**	**₱238,439**	**₱228,929**	

As of December 31, 2016, details of the excess of MCIT over RCIT of the Group follow:

Inception Year	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2013	37,783	37,783	–	–	2016
2014	37,001	19,485	–	17,516	2017
2015	22,823	–	–	22,823	2018
	₱97,607	**₱–**	**₱–**	**₱40,339**	

The reconciliation of the statutory income tax to the provision for income tax follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Statutory income tax	**₱2,276,256**	₱1,923,764	₱2,003,974	**₱2,262,431**	₱2,002,359	₱1,957,021
Tax effects of				-		
FCDU income	**(549,881)**	(459,351)	(524,178)	**(543,591)**	(472,787)	(479,306)
Non-taxable income	**(219,042)**	(300,817)	(618,351)	**(179,507)**	(330,074)	(349,137)
Interest income subjected to final tax	**(464,491)**	(168,700)	(453,824)	**(604,445)**	(180,071)	(230,809)
Nondeductible expenses	**243,937**	(63,433)	1,234,635	**146,205**	(232,661)	532,835
Others	**(160,227)**	(121,494)	(77,329)	**2,046**	41,304	(21,772)
Provision for income tax	**₱1,126,552**	₱809,969	₱1,564,927	**₱1,083,139**	₱828,070	₱1,408,832

27. **Trust Operations**

Securities and other properties (other than deposits) held by the Parent Company in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying balance sheets since these are not assets of the Parent Company (Note 29).

In compliance with the requirements of current banking regulations relative to the Parent Company's trust functions: (a) government bonds included under HFT financial assets and AFS financial assets with total face value of ₱994.05 million and ₱250.62 million as of December 31, 2016 and 2015, respectively, are deposited with the BSP as security for the Parent Company's faithful compliance with its fiduciary obligations (Note 8); and (b) a certain percentage of the Parent Company's trust fee income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20.00% of the Parent Company's authorized capital stock.

28. **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,
- significant investors
- 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 normally made in the ordinary course of business and based on the terms and conditions discussed below.

<u>Transactions with Retirement Plans</u>
Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Group and Parent Company from such services amounted to ₱44.35 million and ₱41.41 million, respectively, in 2016, ₱44.19 million and ₱41.35 million, respectively, in 2015, and ₱46.91 million and ₱44.05 million, respectively, in 2014. The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee (TIC) of the Parent Company. The members of the TIC are directors and key management personnel of the Parent Company.

A summary of transactions with related party retirement plans follows:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Deposits in banks	**₱223,432**	₱75,278	**₱108,259**	₱73,437
AFS financial assets	**1,814,531**	1,644,750	**1,814,531**	1,644,750
Dividend income	**44,214**	40,939	**44,214**	40,939
Interest income	**2,069**	697	**1,172**	511
Total market value of shares	**1,814,531**	1,644,750	**1,814,531**	1,644,750
Number of shares held	**47,751**	44,214	**47,751**	44,214

In 2014, dividend income and interest income of the retirement plan from investments and placements in the Parent Company amounted to ₱37.91 million and ₱0.73 million, respectively, for the Group, and ₱37.91 million and ₱0.66 million, respectively, for the Parent Company.

AFS financial assets represent shares of stock of the Parent Company. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

Remunerations of Directors and other Key Management Personnel

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 ManCom to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Short-term employee benefits	**₱380,394**	₱411,833	₱400,318	**₱315,284**	₱325,324	₱313,469
Post-employment benefits	**4,774**	6,526	7,646	**2,194**	3,946	3,645
	₱385,168	₱418,359	₱407,964	**₱317,478**	₱329,270	₱317,114

Members of the BOD are entitled to a per diem of ₱500.00 for attendance at each meeting of the Board or of any committees and to four percent of the Parent Company's net earnings, with certain deductions in accordance with BSP regulation. Non-executive directors do not receive any performance-related compensation. Directors' remuneration covers all Parent Company's Board activities and membership of committees and subsidiary companies.

The Group also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables below.

Other Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Transactions between the Group and its associated companies also qualify as related party transactions. Details of the Parent Company's subsidiaries and associate are disclosed in Notes 1 and 10.

Group

Related party transactions of the Group by category of related party are presented below.

Category	December 31, 2016 Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		**2,710,000**	These are secured loans with interest rate of 5.13% and maturity of four years; collateral includes shares of stocks with fair value of ₱28.44 billion.
Issuances	₱–		
Repayments	–		
Deposit liabilities		**223**	These are checking accounts with annual average rate of 0.13%.
Deposits	**2,053,853**		
Withdrawals	**(10,270,042)**		
Associate			
Deposit liabilities		**288,072**	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**437,486**		
Withdrawals	**(1,097,863)**		
Key Management Personnel			
Loans and receivables		**11,703**	This includes secured and unsecured loans amounting to ₱16.12 million and ₱8.02 million, respectively. Secured loans bear annual interest rate of 6.00% and maturity of 15 years. Collateral includes real properties with fair value of ₱32.82 million.
Issuances	**557**		
Repayments	**8,463**		
Deposit liabilities		**15,830**	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**209,071**		
Withdrawals	**(228,679)**		
Other Related Parties			
Deposit liabilities		**22,019**	These are checking and savings accountswith annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**8,122,268**		
Withdrawals	**(33,781,787)**		

Category	December 31, 2015 Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		₱2,710,000	These are secured loans with interest rate of 5.13% and maturity of five years; collateral includes shares of stocks with fair value of ₱22.11 billion.
Issuances	₱–		
Repayments	(290,000)		
Deposit liabilities		8,216,412	These are checking accounts with annual average interest rate of 0.13%.
Deposits	3,633,465		
Withdrawals	–		
Associate			
Deposit liabilities		948,449	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	61,703		
Withdrawals	(93,953)		
Key Management Personnel			
Loans and receivables		16,121	Theseare secured loans with interest rates ranging from 5.50% to 8.00% and maturity of 15 years. Collateral includes real properties with fair value of ₱31.08 million.
Issuances	7,901		
Repayments	(13,458)		
Deposit liabilities		35,438	These are checking, savings and time eposit accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	106,168		
Withdrawals	(107,432)		
Other Related Parties			
Deposit liabilities		₱25,681,538	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	₱49,896		
Withdrawals	(4,029,046)		These are checking and savings accounts ith annual average interest rates ranging from 0.13% to 1.00%.

Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2016, 2015, and 2014 follow:

	Significant Investor			**Associate**		
	2016	2015	2014	**2016**	2015	2014
Interest income	**₱138,944**	₱142,662	₱146,695	**₱–**	₱1,288	₱14,341
Interest expense	**12**	8	1	**1,513**	2,411	1,332

	Key Management Personnel			Other Related Parties		
	2016	2015	2014	**2016**	2015	2014
Interest income	**₱–**	₱1,039	₱1,133	**₱–**	₱–	₱42,660
Interest expense	**40**	1,270	466	**11**	125	199

Related party transactions of the Group with significant investor, associate and other related parties pertain to transactions of the Parent Company with these related parties.

Parent Company
Related party transactions of the Parent Company by category of related party, except those already presented in the Group disclosures, are presented below.

	December 31, 2016		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Subsidiaries			
Deposit liabilities		**₱14,218**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**₱273,603**		
Withdrawals	**(6,767,542)**		
Associate			
Deposit liabilities		**288,072**	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**437,486**		
Withdrawals	**(4,700,011)**		
Key Management Personnel			
Loans and receivables		**1,249**	Loans with interest rates ranging from 6.00% to 8.00% amd maturity of 15 years.
Issuances	**557**		
Repayments	**(1,060)**		
Deposit liabilities		**15,830**	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**209,071**		
Withdrawals	**(206,142)**		
Other Related Parties			
Deposit liabilities		**22,019**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**8,122,268**		
Withdrawals	**(33,709,401)**		

	December 31, 2015		
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Deposit liabilities		**₱6,508,157**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**₱35,001**		
Withdrawals	**(50,340)**		
Associate			
Deposit liabilities		**4,550,697**	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**61,703**		
Withdrawals	**(93,953)**		
Key Management Personnel			
Loans and receivables		**1,752**	Loans with interest rates ranging from 6.00% to 8.00% amd maturity of 15 years.
Issuances	**453**		
Repayments	**(856)**		
Deposit liabilities		**12,901**	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**99,867**		
Withdrawals	**(100,466)**		
Other Related Parties			
Deposit liabilities		**25,609,152**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**12,718**		
Withdrawals	**(4,029,046)**		

In 2015, PDB sold its investment property to the Parent Company for a total selling price of ₱464.52 million. PDB recognized gain on such sale amounting to ₱55.30 million. PDB's gain on sale was eliminated at the group level. In addition, CBSI assigned its portfolio of receivables to PDB amounting to ₱2.83 billion.

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2016, 2015 and 2014 in relation to amounts due from related parties.

Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2016, 2015 and 2014 follow:

	Subsidiaries			Associate		
	2016	2015	2014	**2016**	2015	2014
Interest expense	**₱33**	₱137	₱203	**₱1,513**	₱19	₱1,081

	Key Management Personnel			Other Related Parties		
	2016	2015	2014	**2016**	2015	2014
Interest income	**₱56**	₱78	₱98	**₱–**	₱–	₱42,660
Interest expense	**40**	76	55	**11**	27	106

Outstanding loan balances with related parties are unimpaired as at year-end, thus no impairment allowance was recorded.

Outright purchases and outright sale of debt securities of the Parent Company with its subsidiaries in 2016 and 2015 follow:

	Subsidiaries	
	2016	2015
Peso-denominated		
Outright purchase	**₱1,504,879**	₱277,420
Outright sale	**1,128,000**	603,000
Dollar-denominated		
Outright purchase	–	US$9,000
Outright sale	–	5,934

The following table shows the amount and outstanding balance of other related party transactions included in the financial statements:

	Subsidiaries		
	2016	2015	Nature, Terms and Conditions
Balance Sheet			
Accounts receivable	**₱5,187**	₱3,301	This pertains to various expenses advanced by CBC in behalf of CBSI
Security deposits	**3,050**	2,445	This pertains to the rental deposits with CBSI for office space leased out to the Parent Company
Accounts payable	**10,623**	3,303	This pertains to various unpaid rental to CBSI

	Subsidiaries			
	2016	2015	2014	Nature, Terms and Conditions
Income Statement				
Miscellaneous income	**₱1,800**	₱1,800	₱1,800	Human resources functions provided by the Parent Company to its subsidiaries (except CBC Forex and Unity Bank) such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. Under the agreement between the Parent Company and its subsidiaries, the subsidiaries shall pay the Parent Company an annual fee
Occupancy cost	**22,255**	16,266	16,411	Certain units of the condominium owned by CBSI are being leased to the Parent Company for a term of five years, with no escalation clause
Miscellaneous expense	**229,592**	122,260	103,364	This pertains to the computer and general banking services provided by CBC-PCCI to the Parent Company to support its reporting requirements

Regulatory Reporting
As required by the BSP, the Group discloses loan transactions with its and affiliates and investees and with certain directors, officers, stockholders and related interests (DOSRI). Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

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	**2016**	2015
Total outstanding DOSRI loans	**₱7,023,635**	₱5,022,503	**₱7,015,002**	₱4,997,513
Percent of DOSRI loans granted under regulations existing prior to BSP Circular No. 423	–	–	–	–
Percent of DOSRI loans granted under BSP Circular No. 423	–	–	–	–
Percent of DOSRI loans to total loans	**1.81%**	1.59%	**2.12%**	1.88%
Percent of unsecured DOSRI loans to total DOSRI loans	**5.99%**	3.05%	**5.98%**	3.02%

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.

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.

29. Commitments and Contingent Assets and 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. Management does not anticipate any material losses as a result of these transactions.

The following is a summary of contingencies and commitments of the Group and the Parent Company with the equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Trust department accounts (Note 27)	**₱104,373,741**	₱82,677,515	**₱102,862,792**	₱78,663,914
Future exchange sold	**11,267,749**	21,031,257	**11,267,749**	21,031,257
Unused commercial letters of credit (Note 28)	**17,801,390**	18,440,951	**17,801,205**	18,431,395
IRS receivable	**10,823,400**	6,950,000	**10,823,400**	6,950,000
Future exchange bought	**8,922,411**	13,407,792	**8,922,411**	13,407,792
Credit card lines	**8,883,196**	7,435,851	**8,883,196**	7,435,851
Standby credit commitment	**3,029,782**	3,259,734	**3,029,782**	3,259,734
Outstanding guarantees issued	**4,827,530**	5,725,655	**1,140,440**	792,581
Spot exchange sold	**558,487**	753,930	**558,487**	753,930
Spot exchange bought	**409,940**	1,130,390	**409,940**	1,130,390
Late deposits/payments received	**417,559**	245,924	**405,838**	210,993
Deficiency claims receivable	**294,632**	297,073	**294,632**	297,073
Inward bills for collection	**234,588**	144,155	**234,588**	144,155
Outward bills for collection	**73,702**	76,230	**57,227**	74,508
Others	**2,575**	14,125	**2,348**	13,991

30. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit. In 2014, the Group's organization structure was realigned in a manner that caused the composition of its reportable segments to change. From four major groups (Consumer Banking, Institutional Banking, Branch Banking and Treasury), the Group now has three major business segments, namely:

The Group's business segments are as follows:

a. Lending Business – principally handles all the lending, trade finance and corollary banking products and services offered to corporate and institutional customers as well as selected middle market clients. It also handles home loans, contract-to-sell receivables and auto loans for individual and corporate customers. Aside from the lending business, it also provides cash management services and remittance transactions;

b. Retail Banking Business – principally handles retail and commercial loans, individual and corporate deposits, overdrafts and funds transfer facilities, trade facilities and all other services for retail customers;

c. Financial Capital Markets and Investments – principally provides money market, trading and treasury services, manages the Group's funding operations by the use of government securities, placements and acceptances with other banks as well as offers advisory and capital-raising services to corporate clients and wealth management services to high-net-worth customers; and

d. Others – handles other services including but not limited to trust and investment management services, asset management, insurance brokerage, credit management, thrift banking business, operations and financial control, and other support services.

The Group's businesses are organized to cater to the banking needs of market segments, facilitate customer engagement, ensure timely delivery of products and services as well as achieve cost efficiency and economies of scale. Accordingly, the corresponding segment information for all periods presented herein are restated to reflect such change.

The Group reports its primary segment information to the Chief Operating Decision Maker (CODM) on the basis of the above-mentioned segments. The CODM of the Group is the President and Chief Executive Officer.

Segment assets are those operating assets that are employed by a segment in its operating activities that 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 that either are 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 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.

Other operating income mainly consists of trading and securities gain (loss) - net, service charges, fees and commissions, trust fee income and foreign exchange gain - net. Other operating expense mainly consists of compensation and fringe benefits, provision for impairment and credit losses, taxes and licenses, occupancy, depreciation and amortization, stationery, supplies and postage and insurance. Other operating income and expense are allocated between segments based on equitable sharing arrangements.

The Group has no significant customers which contributes 10.00% or more of the consolidated revenues.

The Group's asset producing revenues are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented.

The following tables present relevant financial information regarding business segments measured in accordance with PFRS as of and for the years ended December 31, 2016, 2015 and 2014 (with corresponding items of segment information for earlier periods restated to reflect the new composition of reportable segments):

	Lending Business			Retail Banking Business		
	2016	2015	2014	**2016**	2015	2014
Results of Operations						
Net interest income						
Third party	**₱11,234,520**	₱9,884,601	₱8,972,673	**₱477,635**	₱247,320	(₱187,269)
Intersegment	**(6,185,045)**	(5,226,806)	(3,102,914)	**7,067,165**	6,377,212	4,564,274
	5,049,475	4,657,795	5,869,759	**7,544,800**	6,624,532	4,377,005
Other operating income	**907,182**	885,555	633,077	**1,234,356**	1,420,568	1,296,578
Total revenue	**5,956,657**	5,543,350	6,502,836	**8,779,156**	8,045,100	5,673,583
Other operating expense	**(2,228,638)**	(1,361,427)	(1,172,810)	**(5,759,880)**	(5,472,577)	(5,109,623)
Income before income tax	**3,728,019**	4,181,923	5,330,026	**3,019,276**	2,572,523	563,960
Provision for income tax	**96,461**	–	(3,612)	**(6,833)**	(5,000)	(6,550)
Net income	**₱3,824,480**	₱4,181,923	₱5,326,414	**₱3,012,443**	₱2,567,523	₱557,410
Total assets	**₱251,890,331**	₱200,906,783	₱196,097,393	**₱361,036,278**	₱124,073,281	₱239,928,734
Total liabilities	**2,233,433**	₱1,050,634	₱775,648	**₱365,417,688**	₱336,671,277	₱296,507,001
Depreciation and amortization	**51,266**	₱39,019	₱21,879	**₱313,745**	₱300,010	₱309,589
Provision for impairment and credit losses	**₱916,974**	₱258,725	₱377,664	**₱126,025**	₱217,447	₱264,341
Capital expenditures	**₱451,770**	₱15,713	₱9,341	**₱647,525**	₱15,880	₱92,164

	Financial Capital Markets and Investments			Other Business and Support Units		
	2016	2015	2014	**2016**	2015	2014
Results of Operations						
Net interest income						
Third party	**2,039,741**	₱2,446,783	₱2,599,321	**2,942,296**	₱2,506,480	₱2,704,022
Intersegment	**(424,779)**	(567,059)	(541,263)	**(457,341)**	(583,347)	(920,097)
	1,614,962	1,879,724	2,058,058	**2,484,955**	1,923,133	1,783,925
Other operating income	**1,386,223**	1,393,658	1,413,239	**1,566,985**	787,361	1,416,383
Total revenue	**3,001,185**	3,273,382	3,471,297	**4,051,943**	2,710,494	3,200,308
Other operating expense	**(959,151)**	(651,534)	(601,704)	**(5,253,750)**	(5,674,243)	(5,283,975)
Income before income tax	**2,042,034**	2,621,848	2,869,593	**(1,201,807)**	(2,963,749)	(2,083,667)
Provision for income tax	**(388,807)**	(357,864)	(451,402)	**(827,373)**	(447,105)	(1,103,363)
Net income	**1,653,227**	₱2,263,984	₱2,418,191	**(2,029,180)**	(₱3,410,854)	(₱3,187,030)
Total assets	**128,281,917**	₱104,004,670	₱69,282,581	**(108,010,515)**	₱97,842,229	(₱34,087,895)
Total liabilities	**124,409,814**	₱59,108,627	₱43,584,546	**77,750,872**	₱70,825,521	₱73,786,135
Depreciation and amortization	**30,449**	₱20,199	₱13,950	**729,326**	₱620,184	₱576,346
Provision for impairment and credit losses	**₱–**	₱–	₱–	**(192,453)**	₱490,402	(₱201,104)
Capital expenditures	**₱230,076**	₱8,799	₱66,145	**₱(193,719)**	₱1,453,590	₱896,254

	Total		
	2016	2015	2014
Results of Operations			
Net interest income			
Third party	**₱16,694,192**	₱15,085,184	₱14,088,747
Intersegment	–	–	–
	16,694,192	15,085,184	14,088,747
Other operating income	**5,094,746**	4,487,142	4,759,277
Total revenue	**21,788,941**	19,572,326	18,848,024
Other operating expense	**(14,201,419)**	(13,159,781)	(12,168,112)
Income before income tax	**7,587,522**	6,412,545	6,679,912
Provision for income tax	**(1,126,552)**	(809,969)	(1,564,927)
Net income	**₱6,460,970**	₱5,602,576	₱5,114,985
Total assets	**₱633,198,011**	₱526,826,963	₱471,220,813
Total liabilities	**₱569,811,807**	₱467,656,059	₱414,653,330
Depreciation and amortization	**₱1,124,786**	₱979,412	₱921,764
Provision for impairment and credit losses	**₱850,546**	₱966,574	₱440,901
Capital expenditures	**₱1,135,652**	₱1,493,982	₱1,063,904

The Group's share in net loss of an associate included in other operating income amounting to ₱89.38 million, ₱37.89 million and ₱0.91 million in 2016, 2015 and 2014, respectively are reported under 'Other Business and Support Units'.

31. Earnings Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2016	2015	2014
a. Net income attributable to equity holders of the parent	**₱6,458,296**	₱5,606,666	₱5,117,832
b. Weighted average number of common shares outstanding (Note 22)	**2,002,028**	2,002,028	2,002,028
c. EPS (a/b)	**₱3.23**	₱2.80	₱2.56

As of December 31, 2016, 2015 and 2014, there were no outstanding dilutive potential common shares. Before consideration of the 8.00% stock dividends distributed in 2016, the EPS for 2015 and 2014 were ₱3.02 and ₱2.76, respectively.

32. Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Return on average equity	**10.42%**	9.62%	9.91%	**10.32%**	9.57%	9.91%
Return on average assets	**1.16%**	1.17%	1.12%	**1.33%**	1.35%	1.30%
Net interest margin	**3.20%**	3.37%	3.30%	**3.03%**	3.20%	3.20%

33. Non-cash Investing Activities

The following is a summary of certain non-cash investing activities that relate to the analysis of the statements of cash flows:

	Consolidated		
	2016	2015	2014
Addition to investment properties from settlement of loans	**₱784,415**	₱960,332	₱1,485,082
Fair value gain in AFS financial assets	**405,722**	(610,521)	202,452
Addition to equity investment	**–**	–	145,028
Cumulative translation adjustment	**(3,637)**	(16,734)	(86,686)
Addition to chattel mortgage from settlement of loans	**334,553**	112,056	22,943

	Parent Company		
	2016	2015	2014
Addition to investment properties from settlement of loans	**₱296,844**	₱257,851	₱498,255
Fair value gain in AFS financial assets	**405,722**	(464,471)	188,354
Addition to equity investment	**–**	–	145,028
Cumulative translation adjustment	**(3,637)**	(14,914)	(87,715)
Addition to chattel mortgage from settlement of loans	**19,088**	2,244	7,817

34. 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 under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2016						
				Effects of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments 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 [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial assets						
Currency forwards	**17,631**	**₱–**	**17,631**	**17,310**	**₱–**	**321**
IRS	**30,065**	**–**	**30,065**	**16,496**	**–**	**13,569**
	47,696	**₱–**	**47,696**	**33,807**	**₱–**	**13,890**
Financial liabilities						
Bills payable	**8,072,782**	**₱–**	**8,072,782**	**9,520,216**	**8,943,902**	**–**
Currency forwards	**67,611**	**–**	**67,611**	**17,310**	**–**	**50,301**
IRS	**29,410**	**–**	**29,410**	**16,496**	**–**	**12,913**
	8,169,802	**₱–**	**8,169,802**	**9,554,023**	**8,943,902**	**63,214**

December 31, 2015						
Financial instruments 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 [a-b]	Effects of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial assets						
Currency forwards	₱109,265	₱–	₱109,265	₱2,926	₱–	₱106,339
IRS	7,624	–	7,624	7,243	–	381
	₱116,889	₱–	₱116,889	₱10,169	₱–	₱106,720
Financial liabilities						
Bills payable	₱11,053	₱–	₱11,053	₱12,806	₱561,212	₱–
Currency forwards	2,926	–	2,926	2,926	–	–
IRS	30,497	–	30,497	7,243	20,267	2,987
	₱44,476	₱–	₱44,476	₱22,975	₱581,479	₱2,987

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.

35. Approval of the Financial Statements

The accompanying consolidated and parent company financial statements were authorized for issue by the Parent Company's BOD on March 1, 2017.

36. Supplementary Information Required Under RR No. 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2016.

Gross receipts tax	₱811,167
Documentary stamps tax	607,134
Local taxes	62,622
Fringe benefit tax	5,774
Others	20,112
Balance at end of year	₱1,506,809

Withholding Taxes

Details of total remittances of withholding taxes in 2016 and amounts outstanding as of December31, 2016 are as follows:

	Total remittances	Amounts outstanding
Final withholding taxes	₱667,372	₱66,798
Withholding taxes on compensation and benefits	568,624	36,054
Expanded withholding taxes	111,945	8,750
	₱1,347,941	₱111,602

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

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for China Banking Corporation for the period ended December 31, 2016.

In discharging this responsibility, I hereby declare that (check one (1)):

__✓__ I, am an Accounting Officer of China Banking Corporation.

______ I, am the (state position)_______________, of (state name of your organization) and was contracted to perform this service.

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

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

Edgar Neri Jr.

Edgar S. Neri Jr.
CPA Certificate No. 122893
Valid until September 14, 2019
CPA Accreditation filed on December 9, 2016 still in process

MAR 0 1 2017

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