

NOTES TO FINANCIAL STATEMENTS

(AMOUNTS IN THOUSAND PESOS EXCEPT WHEN OTHERWISE INDICATED)

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2016	2015	2014
a) Net income attributable to equity holders of the Parent Company	₱6,551,658	₱5,827,163	₱5,147,340
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,249,140	1,249,020	1,163,938
c) Basic/Diluted earnings per share (a/b)	₱5.24	₱4.67	₱4.42

As of December 31, 2016, 2015 and 2014, there are no potential common shares with dilutive effect on the basic earnings per share.

33. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱75.2 billion and ₱78.7 billion as of December 31, 2016 and 2015, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱924.8 million and ₱747.8 million (included under 'AFS Investments') as of December 31, 2016 and 2015, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2016, 2015 and 2014 amounting to ₱311.9 million, ₱256.2 million and ₱230.1 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱19.4 million, ₱16.6 million and ₱13.6 million in 2016, 2015 and 2014, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

34. Related Party Transactions

Regulatory Reporting

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Investors (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2016 and 2015, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2016	2015	2016	2015
Total Outstanding DOSRI Accounts*	₱11,900,939	₱7,681,274	₱11,900,939	₱7,681,274
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	2.89%	2.14%	3.23%	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	2.89%	2.14%	3.23%	2.36%
Percent of DOSRI accounts to total loans	2.89%	2.14%	3.23%	2.36%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.02%	0.02%	0.02%	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	0.01%	0.01%	0.01%	0.01%
Percent of non-acruing DOSRI accounts to total DOSRI accounts	0.01%	0.01%	0.01%	0.01%

*Includes outstanding unused credit accommodations of ₱178.7 million as of December 31, 2016 and ₱291.5 million as of December 31, 2015.

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

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.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

Category	2016		Nature, Terms and Conditions
	Amount/Volume	Outstanding Balance	
Significant Investors			
Deposit Liabilities		₱120,074	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱5,633		Interest expense on deposits
Net withdrawals	110,585		Net withdrawals during the period

(Forward)

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Category	2016		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Subsidiaries			
Receivables from customers		₱2,014,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	₱6,876,000		Omnibus line; credit line
Loan collections	6,740,334	7,433,296	Foreign currency-denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Loan commitments		116,393	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Interbank loans receivable		428,290	Interest accrual on receivables from customers and interbank loans receivable
Availments	1,349,191		Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Settlements	1,390,990		Net withdrawals during the period
Due from other banks		2,849	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.00% and maturity terms ranging from 30 to 183 days
			Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest receivable		2,849	Accrued interest on deposit liabilities and bills payable
Deposit liabilities		5,465,222	Advance rental deposit received for 2 years and 3 mos.
Net withdrawals	501,832		Interest income on receivable from customers, due from other banks and interbank loans receivable
Bills payable		1,776,997	Interest expense on deposit liabilities and bills payable
Availments	1,971,729		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Settlements	2,097,198		Outright purchase of securities
Due to other banks		45,211	Outright sale of securities
Accrued interest payable		9,261	Loss from sale of investment securities
Rental deposit		10,900	
Interest income	75,684		
Interest expense	149,832		
Rental income	55,003		
Securities transactions			
Purchases	1,549,350		
Sales	1,218,139		
Trading loss	965		
Affiliates			
Receivables from customers		19,404,084	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	13,803,372		Omnibus line; credit line
Loan Collections	12,567,911		Common shares with acquisition costs ranging from ₱5.00 to ₱100.00 per share
Loan commitments		2,941,216	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Investment in non-marketable equity securities		269,719	Accrued interest on receivables from customers
Sales contract receivable		2,257,651	Advance rental and security deposits received for two months, three months and two years
Accrued interest receivable		26,739	Lease contract for 5 years
Rental deposits		10,171	
Operating lease		7,575	

(Forward)

Category	2016		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Deposit liabilities		₱10,918,370	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	₱3,499,520		Net deposits during the period
Accrued interest payable		52	Accrued interest payable from various deposits
Interest income	388,599		Interest income on receivable from customers
Interest expense	75,633		Interest expense on deposit liabilities
Gain on sale of investment property	1,281,742		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Rental income	53,253		Monthly rent income from related parties
Rental expense	13,213		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expense	438		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	-		Gain from sale of investment securities
Associate			
Deposit liabilities		352,146	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Other liabilities		115	Various manager's check related premium insurance
Interest expense	29,440		Interest expense on deposit liabilities
Rental income	10,158		Rental income from a five-year lease agreement, monthly rental subject to 5% escalation rate
Key Management Personnel			
Loans to officers		14,941	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,057		Settlement of loans and interest
Other equity reserves		105,670	Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		940,860	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		940,053	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		1,133	Various manager's check
Interest income	4,524		Interest income on receivable from customers
Interest expense	19,051		Interest expense on bills payable
Miscellaneous income	5		Premiums collected

Category	2015		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Significant Investors			
Deposit liabilities		₱230,659	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
Interest expense	₱16,406		Interest expense on deposit liabilities
Net withdrawals	4,743,187		Net withdrawals during the period

(Forward)

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Category	2015		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Subsidiaries			
Receivables from customers		₱1,878,667	Term loan maturing in 2017 with 3.85% nominal rate;
Loan releases	₱5,650,750		Revolving credit lines with interest rate of 3.00
Loan collections	9,982,760		maturity of three months; Unsecured
Loan commitments		566,497	Money market line; pre-settlement risk
Interbank loans receivable		158,192	Foreign currency-denominated interbank term loans
Avaliments	1,041,975		with interest rates ranging from 0.03% to 0.35% and
Settlements	940,815		maturity terms ranging from 15 to 150 days
Due from other banks		504,201	Foreign currency-denominated demand deposits and
			time deposits with maturities of up to 90 days with
			annual fixed interest rates ranging from 0.01% to
			4.50%
Accrued interest receivable		3,923	Interest accrual on receivables from customers and
			interbank loans receivable
Deposit liabilities		5,967,054	Peso-denominated and foreign currency-denominated
			demand and savings deposits with annual interest
			rates ranging from 0.10% to 2.35%
			Foreign currency-denominated time deposits with
			annual interest rates ranging from 0.62% to 1.25%
			and maturity terms of 30 days
Net deposits	2,045,599		Net deposits during the period
Bills payable		1,902,466	Foreign currency-denominated bills payable with
Avaliments	3,296,949		interest rates ranging from 0.20% to 2.50% and
Settlements	3,648,952		maturity terms ranging from 30 to 365 days
Due to other banks		252,997	Foreign currency-denominated clearing accounts used
			for funding and settlements of remittances
Accrued interest payable		25,066	Accrued interest on deposit liabilities and bills
			payable
Rental deposit		10,637	Advanced rental and security deposits received for
			two and three months
Other liabilities		2	Various manager's check related to premium
			insurance
Interest income	57,385		Interest income on receivables from customers, due
			from other banks and interbank loans receivable
Interest expense	112,529		Interest expense on deposit liabilities and bills
			payable
Rental income	61,616		Rental income from three years year lease agreement,
			with escalation rate of 10.00% per annum
Fees and commission income	130,082		Income from client referrals and professional fees on
			service agreements with Legal Group
Miscellaneous income	716,247		Proceeds from fire insurance claims on the Ever
			Gotesco property
Securities transactions:			
Purchases	3,141,507		Outright purchase of securities
Sales	3,410,775		Outright sale of securities
Trading gains	287		Gain from sale of investment securities
Affiliates			
Receivables from customers		18,168,623	Secured by hold-out on deposits, government
Loan releases	15,858,440		securities, real estate and mortgage trust indenture;
Loan collections	8,888,360		Unimpaired; With interest rates ranging from 2.82%
			to 6.00%, maturity terms ranging from 90 days to 12
			years and payment terms ranging from monthly
			payments to quarterly payments
Loan commitments		6,340,087	Term loan with maturity in 2023; various short-term
			lines with expiry in 2016; counterparty line
Investment in non-marketable		269,719	Common shares with acquisition costs ranging from
equity securities			₱5.0 to ₱100.00 per share

(Forward)

Category	2015		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Sales contract receivable		₱2,047,347	Purchase of the Parent Company's investment
			properties on installment; secured with interest rate of
			6.00%, maturity term of five years.
Accrued interest receivable		27,861	Accrued interest on receivables from customers
Rental deposits		10,346	Advance rental and security deposits received for two
			months, three months and two years
Deposit liabilities		7,418,850	Peso-denominated and foreign currency-denominated
			demand and savings deposits with annual interest
			rates ranging from 0.10% to 1.50%;
			Peso-denominated and foreign currency-denominated
			time deposits with annual interest rates ranging from
			0.88% to 1.75% and maturity terms ranging from 30
			days to 365 days.
Net deposits	₱1,329,040		Net deposits during the period
Accrued interest payable		57,058	Accrued interest payable from various deposits
Other liabilities		666	Various manager's check related to EIP and premium
			insurance
Rental income	27,152		Rental income on operating lease with term of 10
			years
Rental expense	51,006		Rent payments on operating leases with term ranging
			from 24 to 240 months
Interest income	337,899		Interest income on receivable from customers
Interest expense	35,288		Interest expense on deposit liabilities
Gain on sale of investment	369,000		20.00% to 30.00% downpayment; 80.00% to 70.00%
properties			balance payable in 5 years. Interest-bearing at 6.00%
Service fees and commission	136,908		Income on insurance premiums collected
income			
Service fees and commission	22,245		Claims expense, comprehensive insurance, service
expense			and referral fees
Securities transactions:			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Key Management Personnel			
Loans to officers		16,998	Housing loans to senior officers with interest rates
			ranging from 3.00% to 15.00%;
			Secured and unimpaired
Loan releases	3,170		Loan drawdowns
Loan collections	2,246		Settlement of loans and interest
Other expenses	2,910		Payment of legal fees
Transactions of subsidiaries with other related parties			
Receivable from customers		80,000	Short-term loan with interest rate of 3.00% with
			maturity of three months
Accrued interest receivable		44	Interest accrual on receivables from customers
Investment in marketable equity		39,898	Various investments under management account
securities			placed with the TBG; composed of cash assets,
			deposits with the Parent Company, deposits with
			other banks and AFS government securities
Bills Payable		80,000	Peso-denominated bills payable with interest rate of
			3.00% and maturity of three months
Accrued interest payable		90	Accrued interest on bills payable
Interest income	8,514		Interest income on receivable from customers
Interest expense	2,299		Interest expense on bills payable
Net insurance premiums	4,623		Income on insurance premiums collected
Net insurance benefits and claims	3,497		Claims expense, comprehensive insurance, service
			and referral fees