



**REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster I – Banking and Credit**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Development Bank of the Philippines
Gil J. Puyat Avenue cor. Makati Avenue
Makati City

We have audited the accompanying financial statements of the Development Bank of the Philippines (DBP) and its subsidiaries (referred to as the "Group"), which comprise the statements of financial position as at December 31, 2016 and 2015, the consolidated statements of profit or loss and other comprehensive income, statements of changes in capital funds and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In 2014, government securities holdings classified as Available for Sale (AFS) with face amount totaling P29.081 billion were sold to one and the same counterparty at a loss totaling P876.712 million. The same government securities series were bought back by the Bank at the same price and were booked under Held-to-Maturity. Such derecognition and reclassification were contrary to Philippine Accounting Standard (PAS) 39 because the comparison of the present value of net cash flow before and after the sale showed no significant change. Had the government securities holdings been classified as AFS, the Bank's asset, liability and equity accounts would have decreased by P0.406 billion, P0.080 billion and P0.327 billion as at December 31, 2016, and P0.148 billion, P0.029 billion and P0.119 billion as at December 31, 2015, respectively.

Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and CY 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplemental 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 in Note 39 to the 2015 and 2016 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT



ATTY. RESURRECCION C. QUIETA
Supervising Auditor

May 15, 2017