



February 24, 2022

THE PHILIPPINE STOCK EXCHANGE, INC.

6/F PSE Tower, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Attention: **Ms. Janet A. Encarnacion**
Head, Disclosure Department

PHILIPPINE DEALING AND EXCHANGE CORP.

29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

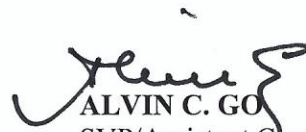
Attention: **Atty. Marie Rose M. Magallen-Lirio**
Head, Issuer Compliance and Disclosure Department

Ladies and Gentlemen:

Please find attached the 2021 Audited Financial Statements of BDO Unibank, Inc. and its Subsidiaries and the corresponding Notes to Financial Statements, which were approved by the Board of Directors at its meeting held today, February 24, 2022.

Thank you.

Very truly yours,



ALVIN C. GO
SVP/Assistant Corporate Secretary and Alternate
Corporate Information Officer

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Report of Independent Auditors

The Board of Directors and Stockholders

BDO Unibank, Inc.

BDO Corporate Center

7899 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Unibank, Inc. and subsidiaries (collectively referred to as the BDO Unibank Group) and of BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2021 and 2020, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the BDO Unibank Group and of the Parent Bank 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 audits of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are the key audit matters identified in our audit of the financial statements of the BDO Unibank Group and the Parent Bank:

(a) Valuation of Loans and Other Receivables

Description of the Matter

The BDO Unibank Group and the Parent Bank are required to recognize allowance for impairment on their loans and other receivables using the expected credit loss (ECL) model in accordance with PFRS 9, *Financial Instruments*. As of December 31, 2021, the BDO Unibank Group and the Parent Bank had loans and other receivables amounting to P2,450,903 million and P2,399,983 million, respectively, net of allowance for impairment of P67,743 million and P65,592 million, respectively. Loans and other receivables are the most significant resources of the BDO Unibank Group and the Parent Bank which account for 68% and 69% of the BDO Unibank Group's and the Parent Bank's total resources, respectively.

The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of critical management judgment and use of subjective estimates in determining how much impairment loss is required to be recognized in the financial statements. These judgment and estimates are disclosed in the BDO Unibank Group's and the Parent Bank's accounting policies in Notes 2 and 3 to the financial statements.

The BDO Unibank Group and the Parent Bank use an ECL model in determining the impairment of their loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the BDO Unibank Group and the Parent Bank incorporated forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition and the measurement of ECL. The BDO Unibank Group and the Parent Bank have identified and documented key drivers of credit risk and credit losses for each loan portfolio and, using an analysis of historical data, have estimated relationships between macro-economic variables, credit risk and credit losses.

The significant judgments applied and the subjectivity of estimates used by management have further heightened due to the unprecedented impact of COVID-19 pandemic to the BDO Unibank Group's and the Parent Bank's loans and receivables. In 2021, the management performed comprehensive review of loan accounts to assess vulnerable loan accounts which resulted in the transfer of the classification of some loans from Stage 1 to either Stage 2 or 3. Further, BDO Unibank Group and the Parent Bank consider the current and forecasted macroeconomic variables in determining the appropriate overlay and in updating the probability of default and loss given default. Accordingly, the BDO Unibank Group and the Parent Bank have recognized in 2021 impairment losses on loans and other receivables amounting to P17,222 million and P17,006 million, respectively, based on the ECL model used by the BDO Unibank Group and the Parent Bank by considering the current credit status of the loans and receivables and the potential delinquencies brought about by the current economic condition.

The disclosures of the BDO Unibank Group and the Parent Bank on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 4 and 11 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which was considered to be a significant risk, included:

- testing the design and operating effectiveness of relevant controls across the processes, as assisted by our own Information Technology specialists, over the loan classification into stages, and the calculation and recognition of the allowance for impairment;
- evaluating appropriateness of the BDO Unibank Group and the Parent Bank's credit policy and loan impairment process as approved by the Board of Directors;
- verifying that the loans are classified to the appropriate stage, and challenging the criteria used to categorize the loan to Stage 1, 2 or 3 in accordance with PFRS 9;
- on a sample basis, evaluating the appropriateness of the credit risk ratings of loans to assess appropriateness of credit risk monitoring;
- assessing the appropriateness of the BDO Unibank Group and the Parent Bank's design of the ECL impairment model;
- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of the loan portfolio. This includes assessing the completeness and appropriateness of the formula and inputs used in determining the probability of default, loss given default and exposure at default;
- for forward-looking information used, evaluating whether the forecasted macro-economic factors, which generally include but not limited to Gross Domestic Product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,
- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows based on agreed restructuring agreement, actual payment pattern after the restructuring, valuation of collaterals and estimates of recovery from other sources of collection.

(b) Valuation of Financial Instruments*Description of the Matter*

In general, the fair valuation of the financial instruments of the BDO Unibank Group and the Parent Bank is computed with reference to external sources and readily available market value. The fair valuation of financial instruments of the BDO Unibank Group and the Parent Bank is considered a key area of focus in our audit due to the use of inputs from external sources in computing the market value of some financial instruments such as derivative with no readily available market value. To the extent practicable, certain financial instruments are measured using models with observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

As of December 31, 2021, the derivative financial assets and derivatives with negative fair values of the BDO Unibank Group that are carried at fair value amounted to P6,232 million and P5,742 million, respectively, while that of the Parent Bank amounted to P2,469 million and P2,462 million, respectively.

The disclosures of the BDO Unibank Group and the Parent Bank on exposure to financial instruments valuation risk are included in Note 4 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- testing of design and operating effectiveness of relevant controls over the valuation process including the valuation method and assumption used by the BDO Unibank Group and the Parent Bank on the financial instruments, particularly the measurement of derivative financial instruments;
- evaluating whether fair value prices used were appropriate by testing the inputs against reliable market sources;
- recomputing the fair values based on the inputs and compared with the market values used by the BDO Unibank Group and the Parent Bank; and,
- reviewing the formulas used in fair market valuation.

(c) Carrying Value of Goodwill and Other Intangible Assets with Indefinite Useful Lives*Description of the Matter*

BDO Unibank Group has goodwill of P4,535 million, with allowance for impairment of P1,514 million, as of December 31, 2021, and the significant portion of which relates to the acquisition of BDO Network Bank, Inc. (BDO Network). Furthermore, the BDO Unibank Group and the Parent Bank have other intangible assets with indefinite useful lives amounting to P3,525 million and P3,522, respectively.

Under PFRS, BDO Unibank Group and the Parent Bank are required to annually test the amount of goodwill and other intangible assets with indefinite useful lives for impairment. This annual impairment testing of goodwill and other intangible assets with indefinite useful lives for impairment is considered to be a key audit matter because the management's process in assessing the recoverability of the intangible assets is complex. In addition, the assumptions used in determining the cash generating units (CGUs) where the goodwill and other intangible assets with indefinite useful lives are allocated and estimating the recoverable amount involves significant judgment. The recoverable amount of the CGUs has been computed using discounted cash flows method. This valuation method uses several key assumptions, including estimates for forecasted statement of financial position and net profit of CGUs, terminal value growth rates and discount rate.

The BDO Unibank Group's disclosures about goodwill and other intangible assets are included in Notes 2, 3 and 15 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill and other intangible assets with indefinite useful lives included, among others, evaluating the appropriateness of assumptions and methodologies used by the management, in particular, those relating to the forecasted statement of financial position and statement of income as well as the discount and growth rate used. We have involved our Firm valuation specialist to assist in evaluating the appropriateness of assumptions used in estimating the recoverable amount of CGUs. In addition, our audit of the financial statements of BDO Network as of and for the year ended December 31, 2021 did not identify events or conditions that may cast significant doubt on BDO Network's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the BDO Unibank Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2021, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditors' report.

Our opinion on the 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 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 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the BDO Unibank Group's and the Parent 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 BDO Unibank Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSA 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 BDO Unibank Group's and the Parent Bank'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 BDO Unibank Group's and the Parent Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the BDO Unibank Group and the Parent Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 BDO Unibank Group and the Parent Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

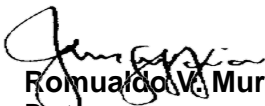
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 31 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. The supplementary information for the years ended December 31, 2021 and 2020 required by the BSP as disclosed in Note 36 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by BIR and BSP is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Romualdo V. Murcia III.

PUNONGBAYAN & ARAULLO

By: 
Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 8852339, January 3, 2022, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-4 (until Sept. 4, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 24, 2022

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group		Parent Bank	
		2021	2020	2021	2020
<u>RESOURCES</u>					
CASH AND OTHER CASH ITEMS	8	P 69,105	P 74,851	P 66,440	P 72,301
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	304,906	308,636	302,660	305,079
DUE FROM OTHER BANKS	9	70,092	65,289	64,349	63,281
TRADING AND INVESTMENT SECURITIES - Net	10	616,261	508,810	497,963	399,456
LOANS AND OTHER RECEIVABLES - Net	11	2,450,903	2,301,981	2,399,983	2,259,686
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	44,807	44,330	41,586	40,832
INVESTMENT PROPERTIES - Net	14	18,795	15,851	11,263	11,835
OTHER RESOURCES - Net	15	<u>48,880</u>	<u>55,152</u>	<u>81,762</u>	<u>82,913</u>
TOTAL RESOURCES		<u>P 3,623,749</u>	<u>P 3,374,900</u>	<u>P 3,466,006</u>	<u>P 3,235,383</u>
<u>LIABILITIES AND EQUITY</u>					
DEPOSIT LIABILITIES	17	P 2,820,896	P 2,610,151	P 2,751,715	P 2,548,291
BILLS PAYABLE	18	204,431	209,744	196,174	202,867
INSURANCE CONTRACT LIABILITIES	20	65,328	58,410	-	-
OTHER LIABILITIES	21	<u>108,546</u>	<u>103,574</u>	<u>94,656</u>	<u>92,171</u>
Total Liabilities		<u>3,199,201</u>	<u>2,981,879</u>	<u>3,042,545</u>	<u>2,843,329</u>
EQUITY	22				
Attributable to:					
Shareholders of the Parent Bank		422,934	391,423	423,461	392,054
Non-controlling Interests		<u>1,614</u>	<u>1,598</u>	<u>-</u>	<u>-</u>
		<u>424,548</u>	<u>393,021</u>	<u>423,461</u>	<u>392,054</u>
TOTAL LIABILITIES AND EQUITY		<u>P 3,623,749</u>	<u>P 3,374,900</u>	<u>P 3,466,006</u>	<u>P 3,235,383</u>

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos Except Per Share Data)

	Notes	BDO Unibank Group			Parent Bank		
		2021	2020	2019	2021	2020	2019
INTEREST INCOME	23	P 144,879	P 157,031	P 160,572	P 136,772	P 149,697	P 153,081
INTEREST EXPENSE	24	13,533	23,331	40,681	12,906	22,400	38,581
NET INTEREST INCOME		131,346	133,700	119,891	123,866	127,297	114,500
IMPAIRMENT LOSSES (RECOVERY) - Net	16						
Financial Assets	10, 11	16,942	29,661	6,021	16,745	29,037	5,754
Non-financial Assets	15	93	511	200	56	491	-
Others	21	28	68	(55)	28	68	(55)
		17,063	30,240	6,166	16,829	29,596	5,699
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		114,283	103,460	113,725	107,037	97,701	108,801
OTHER OPERATING INCOME	25	61,354	55,210	60,111	40,635	37,254	43,145
OTHER OPERATING EXPENSES	25	119,875	112,640	114,649	93,613	90,067	94,337
PROFIT BEFORE TAX		55,762	46,030	59,187	54,059	44,888	57,609
TAX EXPENSE	31	12,907	17,776	15,019	11,378	16,282	13,376
NET PROFIT		P 42,855	P 28,254	P 44,168	P 42,681	P 28,606	P 44,233
Attributable to:							
Shareholders of the Parent Bank		P 42,791	P 28,246	P 44,194			
Non-controlling Interests		64	8	(26)			
		P 42,855	P 28,254	P 44,168			
Earnings Per Share:	32						
Basic		P 9.68	P 6.37	P 10.02			
Diluted		P 9.66	P 6.37	P 10.02			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group			Parent Bank		
		2021	2020	2019	2021	2020	2019
NET PROFIT		P 42,855	P 28,254	P 44,168	P 42,681	P 28,606	P 44,233
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that are or will be reclassified subsequently to profit or loss:							
Net unrealized gains (losses) on debt investments at fair value through other comprehensive income (FVOCI), net of tax	10	(5,365)	4,069	7,583	(2,572)	2,381	3,659
Transfer of realized losses (gains) on disposed debt investments at FVOCI to statements of income, net of tax	10	(307)	(50)	228	(192)	(147)	(7)
Impairment losses (recoveries) on debt investments at FVOCI	10	(87)	37	13	(70)	36	5
Net gains (losses) on FVOCI securities, net of tax		(5,759)	4,056	7,824	(2,834)	2,270	3,657
Translation adjustment related to foreign operations		92	(44)	(1)	50	(8)	(5)
		(5,667)	4,012	7,823	(2,784)	2,262	3,652
Items that will not be reclassified to profit or loss:							
Remeasurement on life insurance reserves	20	5,686	(6,070)	(5,046)	-	-	-
Actuarial gain (losses) on remeasurement of retirement benefit obligation, net of tax	26	(6,013)	764	(2,355)	(5,663)	732	(2,240)
Reversal of revaluation increment, net of tax		55	-	-	55	-	-
Unrealized gains (losses) on equity investments at FVOCI, net of tax	10	135	579	79	49	869	(181)
		(137)	(4,727)	(7,322)	(5,559)	1,601	(2,421)
Share in other comprehensive income (loss) of subsidiaries and associates accounted for under equity method	15.2	(6)	(10)	14	2,587	(4,610)	34
Other Comprehensive Income (Loss), net of tax		(5,810)	(725)	515	(5,756)	(747)	1,265
TOTAL COMPREHENSIVE INCOME		P 37,045	P 27,529	P 44,683	P 36,925	P 27,859	P 45,498
Attributable to:							
Shareholders of the Parent Bank		P 37,028	P 27,505	P 44,675			
Non-controlling Interests		17	24	8			
		P 37,045	P 27,529	P 44,683			

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos)

BDO Unibank Group																
Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Other Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actual Losses	Revaluation Increment	Remeasurement on Life Insurance Reserves	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Associates	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity	
	P	P	P	P	P	P	P	(P)	P	(P)	(P)	(P)	P	P	P	
BALANCE AT JANUARY 1, 2021	43,842	5,150	124,327	17,964	20	214,525	4,008	(10,459)	955	(8,859)	(49)	(10)	391,423	1,598	393,021	
Transactions with owners																
Issuance of shares during the year	13	-	120	-	-	-	-	-	-	-	-	-	133	-	133	
Options transferred during the year	-	-	-	44	-	-	-	-	-	-	-	-	44	-	44	
Options expensed during the year	-	-	-	273	-	-	-	-	-	-	-	-	273	-	273	
Cash dividends	-	-	-	-	-	(5,602)	-	-	-	-	-	-	(5,602)	(1)	(5,603)	
	13	-	120	317	-	(5,602)	-	-	-	-	-	-	(5,152)	(1)	(5,153)	
Total comprehensive income (loss)	-	-	-	-	-	42,701	(5,595)	(5,995)	55	5,686	92	(6)	37,028	17	37,045	
Transfer from Surplus Free																
Trust reserve	-	-	-	263	-	(263)	-	-	-	-	-	-	-	-	-	
Appropriation of excess GLPP over ECL	-	-	-	1,337	-	(1,337)	-	-	-	-	-	-	-	-	-	
Other reserves	-	-	-	49	-	(49)	-	-	-	-	-	-	-	-	-	
	-	-	-	1,649	-	(1,649)	-	-	-	-	-	-	-	-	-	
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)																
	-	-	-	-	-	(322)	(43)	-	-	-	-	-	(365)	-	(365)	
BALANCE AT DECEMBER 31, 2021	43,855	5,150	124,447	19,930	20	249,743	(1,630)	(16,454)	1,010	(3,173)	43	(16)	422,934	1,614	424,548	
BALANCE AT JANUARY 1, 2020	43,814	5,150	124,049	18,362	12	192,333	(1,741)	(11,224)	955	(2,789)	11	-	368,932	1,655	370,587	
Transactions with owners																
Issuance of shares during the year	28	-	278	-	-	-	-	-	-	-	-	-	306	-	306	
Options transferred during the year	-	-	-	(92)	-	-	-	-	-	-	-	-	(92)	-	(92)	
Options expensed during the year	-	-	-	354	-	-	-	-	-	-	-	-	354	-	354	
Cash dividends	-	-	-	-	-	(5,600)	-	-	-	-	-	-	(5,600)	-	(5,600)	
	28	-	278	262	-	(5,600)	-	-	-	-	-	-	(5,032)	-	(5,032)	
Total comprehensive income (loss)	-	-	-	-	-	28,246	4,634	745	-	(6,070)	(60)	(10)	27,505	24	27,529	
Transfer from Surplus Free																
Trust reserve	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-	
Reversal of appropriation	-	-	-	(299)	-	299	-	-	-	-	-	-	-	-	-	
Reversal of appropriation of excess GLPP over ECL	-	-	-	(836)	-	836	-	-	-	-	-	-	-	-	-	
Other reserves	-	-	-	107	-	(107)	-	-	-	-	-	-	-	-	-	
	-	-	-	(660)	-	660	-	-	-	-	-	-	-	-	-	
Disposals of equity securities classified as FVOCI																
	-	-	-	-	-	(1,109)	1,115	-	-	-	-	-	6	-	6	
Other adjustments																
Change in ownership interest in subsidiaries	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)	
	-	-	-	-	17	(5)	-	-	-	-	-	-	12	(81)	(69)	
BALANCE AT DECEMBER 31, 2020	43,842	5,150	124,327	17,964	20	214,525	4,008	(10,459)	955	(8,859)	(49)	(10)	391,423	1,598	393,021	
BALANCE AT JANUARY 1, 2019	43,740	5,150	123,377	14,788	9	155,480	(10,390)	(8,893)	1,008	2,257	13	(14)	326,525	777	327,302	
Transactions with owners																
Issuance of shares during the year	74	-	672	-	-	-	-	-	-	-	-	-	746	-	746	
Options transferred during the year	-	-	-	756	-	-	-	-	-	-	-	-	756	-	756	
Options expensed during the year	-	-	-	994	-	-	-	-	-	-	-	-	994	-	994	
Cash dividends	-	-	-	-	-	(5,593)	-	-	-	-	-	-	(5,593)	-	(5,593)	
	74	-	672	1,750	-	(5,593)	-	-	-	-	-	-	(3,097)	-	(3,097)	
Total comprehensive income (loss)	-	-	-	-	-	44,194	7,862	(9,447)	-	(5,046)	(2)	-	44,675	8	44,683	
Transfer from Surplus Free																
Trust reserve	-	-	-	272	-	(272)	-	-	-	-	-	-	-	-	-	
Appropriation of excess GLPP over ECL	-	-	-	1,543	-	(1,543)	-	-	-	-	-	-	-	-	-	
Other reserves	-	-	-	(2)	-	2	-	-	-	-	-	-	-	-	-	
	-	-	-	1,823	-	(1,824)	-	-	-	-	-	-	-	-	-	
Disposals of equity securities classified as FVOCI																
	-	-	-	-	-	(689)	729	-	-	-	-	-	40	-	40	
Other adjustments																
Change in ownership interest in subsidiaries	-	-	-	-	3	(689)	58	16	-	-	-	-	766	870	1,636	
Disposal of properties	-	-	-	-	-	76	-	-	(53)	-	-	-	23	-	23	
	-	-	-	-	3	(765)	58	16	(53)	-	-	-	789	870	1,659	
BALANCE AT DECEMBER 31, 2019	43,814	5,150	124,049	18,362	12	192,333	(1,741)	(11,224)	955	(2,789)	11	-	368,932	1,655	370,587	

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos)

Notes	Parent Bank										
	Common Stock	Preferred Stock	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on FVOCI	Accumulated Actuarial Losses	Revaluation Increment	Accumulated Translation Adjustment	Accumulated Share in Other Comprehensive Income (Loss) of Subsidiaries and Associates	Total Equity
BALANCE AT JANUARY 1, 2021	P 43,842	P 5,150	P 124,308	P 17,085	P 214,207	P 2,459 (P 10,012)	P 952 (P 14)	P 5,923	P 392,054		
Transactions with owners											
Issuance of shares during the year	13	-	120	-	-	-	-	-	133		
Options transferred during the year	-	-	-	65	-	-	-	-	65		
Options expensed during the year	-	-	-	252	-	-	-	-	252		
Cash dividends	-	-	-	-	(5,602)	-	-	-	(5,602)		
	13	-	120	317	(5,602)	-	-	-	(5,152)		
Total comprehensive income (loss)	-	-	-	-	42,681 (2,785)	(5,663)	55	50	2,587	36,923	
Transfer from Surplus Free											
Trust reserve	22, 28	-	-	263 (263)	-	-	-	-	-		
Appropriation of excess GLLP over ECL	-	-	-	1,250 (1,250)	-	-	-	-	-		
Other reserves	22	-	-	44 (44)	-	-	-	-	-		
	-	-	-	1,557 (1,557)	-	-	-	-	-		
Disposals of equity securities classified as fair value through other comprehensive income (FVOCI)	-	-	-	-	(322)	(22)	-	-	(22)	(366)	
BALANCE AT DECEMBER 31, 2021	P 43,855	P 5,150	P 124,428	P 18,959	P 249,407	P 348 (P 15,672)	P 1,007	P 36	P 3,358	P 423,461	
BALANCE AT JANUARY 1, 2020	P 43,814	P 5,150	P 124,030	P 17,387	P 191,735	P 828 (P 10,744)	P 952 (P 6)	P 2,280	P 369,210		
Transactions with owners											
Issuance of shares during the year	28	-	278	-	-	-	-	-	306		
Options transferred during the year	-	-	-	(54)	-	-	-	-	(54)		
Options expensed during the year	-	-	-	316	-	-	-	-	316		
Cash dividends	-	-	-	-	(5,600)	-	-	-	(5,600)		
	28	-	278	262	(5,600)	-	-	-	(5,032)		
Total comprehensive income (loss)	-	-	-	-	28,606	3,139	732	(8)	(4,610)	27,859	
Transfer from Surplus Free											
Trust reserve	22, 28	-	-	223 (223)	-	-	-	-	-		
Reversal of appropriation of excess GLLP over ECL	-	-	-	(827)	827	-	-	-	-		
Other reserves	22	-	-	40 (40)	-	-	-	-	-		
	-	-	-	(564)	564	-	-	-	-		
Disposals of equity securities classified as FVOCI	-	-	-	-	(1,102)	148	-	-	967	6	
Other adjustment											
Change in ownership interest in subsidiaries	15, 30	-	-	-	11	-	-	-	-	11	
	-	-	-	-	11	-	-	-	-	11	
BALANCE AT DECEMBER 31, 2020	P 43,842	P 5,150	P 124,308	P 17,085	P 214,207	P 2,459 (P 10,012)	P 952 (P 14)	P 5,923	P 392,054		
BALANCE AT JANUARY 1, 2019	P 43,740	P 5,150	P 123,358	P 13,885	P 154,727	P 4,281 (P 8,504)	P 1,005 (P 1)	P 2,314	P 326,765		
Transactions with owners											
Issuance of shares during the year	74	-	672	-	-	-	-	-	746		
Options transferred during the year	-	-	-	860	-	-	-	-	860		
Options expensed during the year	-	-	-	890	-	-	-	-	890		
Cash dividends	-	-	-	-	(5,593)	-	-	-	(5,593)		
	74	-	672	1,750	(5,593)	-	-	-	(3,097)		
Total comprehensive income (loss)	-	-	-	-	44,233	3,476 (2,240)	-	(5)	34	45,498	
Transfer from Surplus Free											
Trust reserve	22, 28	-	-	189 (189)	-	-	-	-	-		
Appropriation of excess GLLP over ECL	22	-	-	1,563 (1,563)	-	-	-	-	-		
	-	-	-	1,752 (1,752)	-	-	-	-	-		
Disposals of equity securities classified as FVOCI	-	-	-	-	(689)	(23)	-	-	(712)		
Other adjustment											
Change in ownership interest in subsidiaries	15, 30	-	-	-	733	-	-	-	733		
Disposal of properties	22	-	-	-	76	-	(53)	-	23		
	-	-	-	-	809	-	(53)	-	756		
BALANCE AT DECEMBER 31, 2019	P 43,814	P 5,150	P 124,030	P 17,387	P 191,735	P 828 (P 10,744)	P 952 (P 6)	P 2,280	P 369,210		

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group			Parent Bank		
		2021	2020	2019	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 55,762	P 46,030	P 59,187	P 54,059	P 44,888	P 57,609
Adjustments for:							
Interest income	23	(144,879)	(157,031)	(160,572)	(136,772)	(149,697)	(153,081)
Interest received		147,093	153,049	151,225	140,391	146,917	145,459
Interest paid		(13,039)	(24,211)	(40,248)	(13,050)	(23,677)	(38,797)
Interest expense	24	13,533	23,331	40,681	12,906	22,400	38,581
Gain from the disposal of securities at fair value through other comprehensive income (FVOCI)	10	(278)	(644)	(163)	(191)	(178)	(8)
Gain from the disposal of investment securities at amortized cost		(156)	(3,586)	(17)	(108)	(3,586)	(17)
Depreciation and amortization	12, 14, 15	9,198	9,190	8,850	8,035	7,935	7,564
Impairment losses	10, 11, 15, 16	17,063	30,240	6,166	16,829	29,596	5,699
Share in net profit of subsidiaries and associates	15	(814)	(470)	(696)	(6,350)	(3,839)	(6,046)
Foreign exchange loss (gain) unrealized		(7,614)	5,705	2,885	(6,714)	4,492	2,976
Fair value losses (gains)		(293)	(68)	597	(221)	67	1,093
Operating profit before changes in operating resources and liabilities		75,576	81,535	67,895	68,814	75,318	61,032
Decrease (increase) in financial assets at fair value through profit or loss		(10,287)	(9,976)	(7,374)	39	(1,222)	(1,040)
Increase in loans and other receivables		(145,077)	(59,366)	(192,119)	(135,533)	(70,019)	(194,417)
Increase in investment properties		(4,291)	(194)	(1,058)	(658)	(392)	(1,014)
Increase in other resources		(13,928)	(16,213)	(16,122)	(9,535)	(14,039)	(13,265)
Increase in deposit liabilities		210,839	126,307	66,043	203,574	110,989	77,148
Increase in insurance contract liabilities		12,604	9,867	8,921	-	-	-
Increase in other liabilities		15,963	5,479	22,660	13,629	9,201	22,703
Cash generated from (used in) operations		141,399	137,439	(51,154)	140,330	109,836	(48,853)
Cash paid for income tax		(13,213)	(15,857)	(13,555)	(12,140)	(14,872)	(11,861)
Net Cash From (Used in) Operating Activities		128,186	121,582	(64,709)	128,190	94,964	(60,714)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of investment securities at amortized cost	10	(169,502)	(116,777)	(79,199)	(161,191)	(111,208)	(78,983)
Acquisitions of securities at fair value through other comprehensive income (FVOCI)	10	(476,166)	(197,175)	(58,665)	(446,867)	(162,827)	(39,656)
Maturities of investment securities at amortized cost		68,198	89,456	55,005	60,520	87,087	49,664
Proceeds from disposals of securities at FVOCI		490,264	158,479	39,398	459,718	129,731	24,053
Acquisitions of premises, furniture, fixtures and equipment	12	(3,853)	(3,089)	(4,397)	(3,314)	(2,570)	(3,446)
Proceeds from disposals of premises, furniture, fixtures and equipment		158	131	310	65	22	165
Net Cash Used in Investing Activities		(90,901)	(68,975)	(47,548)	(91,069)	(59,765)	(48,203)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from bills payable	18	127,859	375,207	510,151	60,762	181,674	132,467
Payments of bills payable	18	(139,905)	(327,299)	(482,251)	(74,022)	(120,527)	(99,044)
Dividends paid	22	(5,603)	(5,600)	(5,593)	(5,602)	(5,600)	(5,593)
Payments of lease liabilities	13	(3,238)	(2,940)	(3,122)	(3,100)	(2,828)	(3,076)
Proceeds from issuance of common stock	22	133	306	746	133	306	746
Redemption of subordinated notes payable	19	-	(10,000)	-	-	(10,000)	-
Net Cash From (Used in) Financing Activities		(20,754)	29,674	19,931	(21,829)	43,025	25,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Carried Forward)		P 16,531	P 82,281	(P 92,326)	P 15,292	P 78,224	(P 83,417)

	Notes	BDO Unibank Group			Parent Bank		
		2021	2020	2019	2021	2020	2019
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Brought Forward)		P 16,531	P 82,281	(P 92,326)	P 15,292	P 78,224	(P 83,417)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	8	74,851	64,140	53,749	72,301	62,726	52,492
Due from Bangko Sentral ng Pilipinas (BSP)	8	308,636	309,040	354,132	305,079	306,938	349,017
Due from other banks	9	65,289	38,956	55,292	63,281	35,820	48,780
Investment securities at amortized cost	10	164	308	9,168	164	308	6,490
Reverse repurchase agreements	11	16,729	-	22,009	14,135	-	22,009
Interbank loans receivables	11	57,100	31,277	42,214	57,100	31,277	42,214
Foreign currency notes and coins (FCNC)	15	8,578	5,345	4,828	8,577	5,344	4,828
		<u>531,347</u>	<u>449,066</u>	<u>541,392</u>	<u>520,637</u>	<u>442,413</u>	<u>525,830</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	8	69,105	74,851	64,140	66,440	72,301	62,726
Due from BSP	8	304,906	308,636	309,040	302,660	305,079	306,938
Due from other banks	9	70,092	65,289	38,956	64,349	63,281	35,820
Investment securities at amortized cost	10	-	164	308	-	164	308
Reverse repurchase agreements	11	17,095	16,729	-	15,800	14,135	-
Interbank loans receivables	11	81,083	57,100	31,277	81,083	57,100	31,277
FCNC	15	5,597	8,578	5,345	5,597	8,577	5,344
		<u>P 547,878</u>	<u>P 531,347</u>	<u>P 449,066</u>	<u>P 535,929</u>	<u>P 520,637</u>	<u>P 442,413</u>

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

- The BDO Unibank Group and the Parent Bank foreclosed real and other properties totalling to P13,523 and P13,479, respectively, as of December 31, 2021, P13,757 and P13,743, respectively, as of December 31, 2020 and P14,009 and P13,780, respectively, as of December 31, 2019 in settlement of certain loan accounts (see Note 14).
- The BDO Unibank Group and the Parent Bank recognized additional right-of-use assets amounting to P3,216 and P2,951, respectively, in 2021 and P1,775 and P1,628, respectively, in 2020 and P2,801 and P2,963, respectively, in 2019 which are presented as part of Premises, Furnitures, Fixtures and Equipment (see Notes 12 and 13).

Other Information

Certain investment securities at amortized cost, reverse repurchase agreements, interbank loans receivables, and FCNC are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Trading and Investment Securities, Loans and Other Receivables, and Other Resources, respectively, in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

BDO UNIBANK, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021, 2020 AND 2019
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank, BDO or the Parent Bank) was incorporated in the Philippines on December 20, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group) offer a wide range of banking services such as commercial banking, investment banking, private banking, insurance and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, life insurance and insurance brokerage, credit card services, stock brokerage, trust and others.

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of Republic Act (R.A.) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE).

The BDO Unibank Group and the Parent Bank's banking network within and outside the Philippines as of December 31, 2021 and 2020 follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Local branches	1,542	1,470	1,191	1,182
Foreign branches	2	2	2	2
Automated teller machines (ATMs):				
On-site	2,626	2,539	2,339	2,307
Off-site	1,857	1,898	1,812	1,855
Cash accept machines (CAMs)	624	599	624	599
Self-service teller machines	9	5	9	5
Mobile automated teller machines	1	2	1	2

BDO Unibank Group operates mainly within the Philippines with banking branches in Hong Kong and Singapore, a real estate and holding company in Europe, and various remittance subsidiaries operating in Asia, Europe, Canada and the United States. These foreign operations accounted for 1.2%, 1.0% and 1.1% of BDO Unibank Group's total revenues in 2021, 2020 and 2019, respectively, and 2.1% and 1.9% of BDO Unibank Group's total resources as of December 31, 2021 and 2020, respectively. BDO Unibank Group's subsidiaries and associates are shown in Notes 2.3 and 15.2.

The Parent Bank's principal office address is at BDO Corporate Center, 7899 Makati Avenue, Makati City while the temporary business address is at BDO Towers Valero, 8741 Paseo de Roxas Street, Salcedo Village, Makati City effective October 30, 2021 until further notice.

1.2 Approval of Financial Statements

The financial statements of the BDO Unibank Group and the Parent Bank as of and for the year ended December 31, 2021 (including the comparative financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019) were authorized for issue by the Parent Bank's Board of Directors (BOD) on February 24, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines

The consolidated financial statements of BDO Unibank Group and the separate financial statements of the Parent Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resources, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The BDO Unibank Group and the Parent Bank present a statement of comprehensive income separate from the statement of income.

The BDO Unibank Group and the Parent Bank present a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the BDO Unibank Group and the Parent Bank's functional and presentation currency, and all values are presented in millions, except for per share data or when otherwise indicated (see also Note 2.22).

Items included in the financial statements of BDO Unibank Group and the Parent Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which BDO Unibank Group and the Parent Bank operate.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2021 that are Relevant to BDO Unibank Group and the Parent Bank*

The BDO Unibank Group and the Parent Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

PFRS 4, PFRS 7, PFRS 9 and PFRS 16 (Amendments)	:	Insurance Contracts, Financial Instruments: Disclosures, Financial Instruments and Leases – Interest Rate Benchmark Reform Phase 2
PFRS 16 (Amendments)	:	Leases – Coronavirus Disease 2019 (COVID-19) – Related Rent Concessions Beyond June 30, 2021

Discussed below and in the succeeding pages are the relevant information about these amendments to existing standards.

- (i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, PFRS 16 (Amendments), *Leases*, and PFRS 4 (Amendments), *Insurance Contracts – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are relevant to BDO Unibank Group because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-2021 (the date by which the reform is expected to be implemented).

Discussed below are the relevant information arising from BDO Unibank Group's adoption of these amendments.

- When the contractual terms of the BDO Unibank Group's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the BDO Unibank Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the BDO Unibank Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

For the year ended December 31, 2021, the interest rate benchmark reform has no impact on the BDO Unibank Group's financial assets and liabilities. The changes in BDO Unibank Group's risk management strategy arising from the LIBOR reform and other required disclosures are disclosed in Note 4.6.

- (ii) The BDO Unibank Group and the Parent Bank elected to adopt early PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021*, which is effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The BDO Unibank Group and the Parent Bank have applied this practical expedient to all rent concessions that need conditions of the amendments to PFRS 16. The rent concessions recognized as offset against Occupancy under Other Operating Expense account in the 2021 statement of income of the BDO Unibank Group and the Parent Bank amounted to P395 for the year ended December 31, 2021 (see Note 25).

(b) *Effective Subsequent to 2021 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on BDO Unibank Group and the Parent Bank's financial statements.

- (i) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022)
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)
- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* (effective January 1, 2022)
- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the BDO Unibank Group:
 - PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*
 - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023)
- (vi) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective January 1, 2023)
- (vii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective January 1, 2023)
- (viii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective January 1, 2023)
- (ix) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely)
- (x) PFRS 17, *Insurance Contracts* (effective January 1, 2023). The new standard will eventually replace PFRS 4, *Insurance Contracts*. The Insurance Commission (IC), through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

PFRS 17 further allows a choice between recognizing changes in discount rates either in the statement of income or directly in other comprehensive income. The choice is likely to reflect how insurers account for financial assets under PFRS 9.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

A modification of the general measurement model called the variable fee approach is also introduced by PFRS 17 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

2.3 Basis of Consolidation

The BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank, and its subsidiaries as enumerated in Notes 2.3I and 15.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the BDO Unibank Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Bank, using consistent accounting principles.

The Parent Bank accounts for its investments in subsidiaries, associates and transactions with non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Parent Bank has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Bank controls another entity. The Parent Bank obtains and exercises control when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity, usually through voting rights. Subsidiaries are consolidated from the date the Parent Bank obtains control.

The Parent Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries [see Note 2.3(d)]. Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BDO Unibank Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BDO Unibank Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of BDO Unibank Group's share of the identifiable net assets acquired, is recognized as goodwill. If the acquisition consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly as a gain in the statement of income [see Note 2.3(d)].

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interest method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

Investments in subsidiaries are initially recognized at cost and subsequently accounted for using the equity method in the Parent Bank's financial statements (see Note 2.11).

(b) *Investment in Associates*

Associates are those entities over which the BDO Unibank Group and the Parent Bank are able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the BDO Unibank Group and the Parent Bank's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the BDO Unibank Group and the Parent Bank's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the BDO Unibank Group and the Parent Bank's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in net profit (loss) of associates as part of Miscellaneous - net and Share in net income of subsidiaries and associates under Other Operating Income account in the statement of income for BDO Unibank Group and Parent Bank, respectively.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Notes 2.21 and 15.2).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the BDO Unibank Group and the Parent Bank, as applicable. However, when the BDO Unibank Group and the Parent Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BDO Unibank Group and the Parent Bank do not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

(c) *Transactions with Non-controlling Interests*

BDO Unibank Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of BDO Unibank Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recognized in equity. Disposals of equity investments to non-controlling interests, which result in gains or losses for BDO Unibank Group, are also recognized in equity.

When BDO Unibank Group ceases to have control, any interest retained in the subsidiary is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The initial carrying amount for the purposes of subsequently accounting for the interest retained as an associate, joint venture or financial asset is the fair value. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if BDO Unibank Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

In BDO Unibank Group's financial statements, the non-controlling interest component is shown in its statement of changes in equity, and in its statement of income and statement of comprehensive income for the share of profit or loss and movement of other comprehensive income, respectively, during the year.

The BDO Unibank Group holds interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership		
	2021	2020	2019
Rural Bank			
BDO Network Bank, Inc. (BDO Network) (A Rural Bank of BDO)	84.87%	84.87%	84.87%
Investment House			
BDO Capital & Investment Corporation (BDO Capital)	99.88%	99.88%	99.88%
Private Banking			
BDO Private Bank, Inc. (BDO Private)	100%	100%	100%
Leasing and Finance			
BDO Leasing and Finance, Inc. (BDO Leasing)	88.54%	88.54%	88.54%
Averon Holdings Corporation (Averon)	99.88%	99.88%	99.88%
BDO Rental, Inc. (BDO Rental)	100%	100%	88.54%
BDO Finance Corporation (BDO Finance)	100%	100%	100%
Securities Companies			
BDO Securities Corporation (BDO Securities)	99.88%	99.88%	99.88%
Armstrong Securities, Inc. (ASI)	80%	80%	80%
BDO Nomura Securities, Inc. (BDO Nomura)	-	-	51%
Real Estate Companies			
BDO Strategic Holdings, Inc. (BDOSHI)	100%	100%	100%
BDORO Europe Ltd. (BDORO)	100%	100%	100%
Equimark-NFC Development Corporation (Equimark)	60%	60%	60%
Insurance Companies			
BDO Life Assurance Company Inc., (BDO Life)	100%	100%	100%
BDO Insurance Brokers, Inc. (BDOI)	100%	100%	100%
Remittance Companies			
BDO Remit (Japan) Ltd.	100%	100%	100%
BDO Remit (Canada) Ltd.	100%	100%	100%
BDO Remit Limited	100%	100%	100%
BDO Remit (Macau) Ltd.	100%	100%	100%
BDO Remit International Holdings B.V. (BDO RIH)	96.32%	96.32%	96.32%
BDO Remit (USA), Inc.	100%	100%	100%
BDO Remit (Italia) S.p.A	-	100%	100%
Others			
PCI Realty Corporation	-	-	100%

Non-controlling interests represent the interests not held by BDO Unibank Group in BDO Network, BDO Capital, BDO Leasing, Averon, BDO Rental, BDO Securities, BDO Nomura, ASI, Equimark and BDO RIH in 2019. For 2021 and 2020, BDO Unibank Group's non-controlling interest is the same as 2019 except for BDO Rental and BDO Nomura, which was merged with BDO Securities.

On December 5, 2020, the BOD of the Parent Bank approved the write-off of the investment in PCI Realty Corporation (see Note 15.2).

On December 1, 2020, the merger of BDO Nomura and BDO Securities was completed, with BDO Securities as the surviving entity (see Note 30.2).

On June 13, 2020, BDO Remit (Italia) S.p.A completed its liquidation and made partial repatriation of funds to BDOSHI. Final capital return was made on July 1, 2021 (see Note 30.4).

On July 26, 2019, the BOD of BDOSHI approved and authorized BDOSHI to incorporate a new finance company with an initial paid-in capital of P1,000, subject to applicable regulatory approvals. On December 9, 2019, the Securities and Exchange Commission (SEC) approved the incorporation of BDO Finance (see Note 30.3).

On May 16, 2019, the Parent Bank completed the sale of its 15% ownership interest in BDO Network.

(d) *Business Combination*

Business acquisitions are accounted for using the acquisition method of accounting [see Note 2.3(a)].

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.21). Impairment losses on goodwill are not reversed.

Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost of investment is recognized directly in the statement of income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interest method [see Note 2.3(a)].

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to BDO Unibank Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 6, which represent the main products and services provided by BDO Unibank Group.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of BDO Unibank Group used for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets, which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no significant changes from prior periods in the measurement methods used to determine reported segment information.

2.5 Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their settlement date (i.e., the date that the BDO Unibank Group commits to purchase or sell the asset).

At initial recognition, the BDO Unibank Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

(i) *Financial Assets at Amortized Cost*

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

- the asset is held within BDO Unibank Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for other receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the BDO Unibank Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the BDO Unibank Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The BDO Unibank Group's financial assets at amortized cost are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, Investment securities at amortized cost and certain accounts under Other Resources account in the statement of financial position.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins (FCNC), reverse repurchase agreements, certain interbank bank loans receivables and investment securities at amortized cost with original maturities of three months or less from placement date.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

BDO Unibank Group accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, BDO Unibank Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the BDO Unibank Group for trading or as mandatorily required to be classified as FVTPL. The BDO Unibank Group has designated equity instruments as at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of net unrealized gain or loss (NUGL) on FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are reclassified to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous - net under Other Operating Income account in the statement of income, when the BDO Unibank Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the BDO Unibank Group, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the BDO Unibank Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The BDO Unibank Group's financial assets at FVTPL include equity securities which are held for trading purposes.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading gain under Other Operating Income in the statement of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using valuation technique when no active market exists.

Interest earned on these investments is recorded under Interest Income while dividend income is reported as part of Dividends under Other Operating Income account in the statement of income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

BDO Unibank Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, BDO Unibank Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the BDO Unibank Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) *Effective Interest Rate Method and Interest Income*

Interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The BDO Unibank Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the statement of financial position with an increase (reduction) in interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The BDO Unibank Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.5(c)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(c) *Impairment of Financial Assets*

At the end of the reporting period, the BDO Unibank Group assesses its ECL on a forward-looking basis associated with its financial assets which consist of debt instruments carried at amortized cost and FVOCI, and other contingent accounts such as committed credit lines and unused commercial letter of credits. No impairment loss is recognized on equity investments. The BDO Unibank Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The BDO Unibank Group measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). When there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall also be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The BDO Unibank Group's definition of credit risk and information on how credit risk is mitigated by the BDO Unibank Group are disclosed in Note 4.3.

(d) *Measurement of ECL*

The key elements used in the calculation of ECL are as follows:

- *Probability of Default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss Given Default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those BDO Unibank Group would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at Default (EAD)* – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the BDO Unibank Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the BDO Unibank Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur, unless the drawdown after default will be mitigated by the normal credit risk management actions and policies of the BDO Unibank Group.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The BDO Unibank Group recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in NUGL account, and does not reduce the carrying amount of the financial asset in the statement of financial position, and other contingent accounts, for which the loss allowance is recognized in the other liability account.

The BDO Unibank Group's detailed ECL measurement as determined by the management is disclosed in Note 4.3.5.

(e) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the BDO Unibank Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the BDO Unibank Group assesses whether or not the new terms are substantially different to the original terms. The BDO Unibank Group considers, among others:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the BDO Unibank Group derecognizes the financial asset and recognizes a “new” asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BDO Unibank Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the “new” asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the BDO Unibank Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Through Modification

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the BDO Unibank Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the BDO Unibank Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the BDO Unibank Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the BDO Unibank Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(f) Classification and Measurement of Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, insurance contract liabilities and other liabilities (including derivatives with negative fair values, except taxes payable, unearned income and capitalized interest and other charges).

- *Deposit liabilities and other liabilities* are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

- *Bills payable* are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- *Derivatives with negative fair values* are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss (see Note 2.6).
- *Lease deposits from operating and finance leases* (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day-one gain and is included as part of Miscellaneous - net under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense account in the statement of income.
- *Dividend distributions to shareholders* are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and subject to the requirements of BSP Circular 888.

(g) *Derecognition of Financial Liabilities*

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(h) *Financial Guarantees and Undrawn Loan Commitments*

The BDO Unibank Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the BDO Unibank Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the BDO Unibank Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not reflected in the statement of financial position. These contracts are in the scope of the ECL requirements where the BDO Unibank Group estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the BDO Unibank Group's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position.

2.6 *Derivative Financial Instruments*

BDO Unibank Group is a party to various foreign currency forwards, cross-currency swaps and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses valuation models, which usually use the discounted cash flow approach. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique, in some instances, is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Certain derivatives, if any, may be designated as either: (i) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, (ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument, if any, depends on the hedging relationship designated by BDO Unibank Group.

2.7 Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB), entity merged with BDO Unibank in 2008, stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the equity section of the statement of changes in equity, net of applicable deferred tax (see Note 2.16h).

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 to 50 years
Furniture, fixtures and equipment	3 to 15 years
Leasehold rights and improvements	5 to 10 years

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Fully depreciated assets are retained in accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21.h).

The residual values, estimated useful lives and method of depreciation and amortization of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these properties, the cost is recognized initially at fair value. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 to 50 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value.

Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Notes 2.7 and 2.21).

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income in the year of retirement or disposal.

Transfers from other accounts (such as premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

2.9 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which are determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land.

Real properties for development and sale are derecognized upon disposal or no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of these properties is recognized in profit or loss and is presented as part of Income from assets sold or exchanged under Other Operating Income account in the year of retirement or disposal.

2.10 Non-current Assets Held for Sale

Non-current assets held for sale include other properties (chattels) acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

BDO Unibank Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond BDO Unibank Group's control and there is sufficient evidence that BDO Unibank Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The BDO Unibank Group shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to

sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If BDO Unibank Group has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the BDO Unibank Group shall cease to classify the asset as held for sale and will reclassify it as investment properties for land and building, or other properties for chattel and other assets. For building under investment properties or other properties, this would be subject to depreciation.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of income.

2.11 Equity Investments

In the Parent Bank's financial statements, investments in subsidiaries and associates (presented as Equity investments under Other Resources account in the statement of financial position) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.21). Associates are all entities over which the BDO Unibank Group has significant influence but which are neither subsidiaries nor interest in a joint venture.

Investments in subsidiaries and associates are initially recognized at cost and subsequently accounted for using the equity method (see Note 2.3).

Changes resulting from other comprehensive income of the subsidiary and associate or items recognized directly in the subsidiary's and associate's equity are recognized in other comprehensive income or equity of the Parent Bank, as applicable. However, when the Parent Bank's share of losses of subsidiary or associate equals or exceeds its interest in the subsidiary or associate, including any other unsecured receivables, the Parent Bank would not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Impairment loss is provided when there is objective evidence that the investment in a subsidiary and an associate will not be recovered (see Note 2.21).

Distributions received from the subsidiaries and associates are accounted for as a reduction of the carrying value of the investment.

2.12 Other Resources

Other resources, which include non-current assets held for sale (see Note 2.10), pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.21).

2.13 Intangible Assets

Intangible assets include goodwill, trading rights, branch licenses, customer lists, trademark and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition [see Note 2.3(d)]. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but to an annual test for impairment (see Note 2.21). Goodwill is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each primary reporting segment.

Trading rights represent the rights given to securities subsidiaries of BDO Unibank Group engage in stock brokerage to preserve access to the trading facilities and to transact business on PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. BDO Unibank Group has no intention to sell its trading right in the future as it intends to continue to operate its stock brokerage business. The trading right is tested annually for any impairment in realizable value (see Note 2.21).

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks or as provided by the BSP in addition to the current branches of the acquired banks. Branch licenses are assessed as having an indefinite useful life and are tested annually for any impairment (see Note 2.21).

Customer lists consist of information about customers such as their name, contact information, and managed accounts under BDO Unibank Group's trust business. The customer list is classified as intangible asset with indefinite useful life, hence, would be reviewed for impairment by assessing at each reporting date whether there is any indication that the trust business brought about by the customer lists may be impaired (see Note 2.21).

Trademark pertains to the license granted to the Parent Bank for the exclusive right to use the trademark, service mark, name or logo of Diners Club International, Ltd. (Diners) in connection with the Parent Bank's operation of Diners Club card business in the Philippines. The trademark is covered by a trademark license agreement with a term of five years, renewable every five years, subject to certain conditions set by trademark owner. This intangible asset is recognized at an amount equal to the excess of purchase price for the acquisition of Diners credit card portfolio over the acquisition-date fair value of the net assets acquired. It is amortized on a straight-line basis over a finite useful life of five years based on the term of the trademark license agreement, which is deemed to have a finite useful life since renewal is not guaranteed.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.14 Insurance Contract Liabilities

(a) Legal Policy Reserves

Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a prospective actuarial valuation method and assumptions subject to the provisions of the Insurance Code and guidelines set by the IC.

The BDO Unibank Group uses gross premium valuation (GPV) as the basis for valuation of the reserves for traditional life insurance policies. GPV is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate provided by the IC. For this purpose, the expected future cash flows shall be determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation (MfAD) from the expected experience. The methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines, which now considers other assumptions such as morbidity, lapse and/or persistency, non-guaranteed benefits and MfAD.

The changes in legal policy reserves for traditional life insurance policies are recognized as follows:

- (i) the increase or decrease in legal policy reserves in the current year due to other assumptions excluding change in discount rate will be recognized to profit or loss; and,
- (ii) remeasurement on life insurance reserves due to changes in discount rates will be recognized in other comprehensive income (see Note 2.16).

(b) Insurance Contracts with Fixed and Guaranteed Terms

Liabilities are determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums discounted at rates prescribed by the IC. Future cash flows are determined using best estimate assumptions with regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

BDO Unibank Group has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, wherein discount rates are based on risk-free discount rates provided by IC and other assumptions such as mortality, disability, lapse, and expenses taking into account BDO Unibank Group's experience.

(c) Variable Unit-linked Insurance Contracts

BDO Unibank Group, through BDO Life, issues unit-linked insurance contracts. In addition to providing insurance coverage, a unit-linked contract links payments to units of an internal investment fund set up by BDO Unibank Group with the consideration received from the policyholders. Premiums received from the issuance of unit-linked insurance contracts are recognized as premiums revenue. As allowed by PFRS 4, BDO Unibank Group chose not to unbundle the investment portion of its unit-linked products.

The reserve for unit-linked liability is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, mortality and surrender charges and any withdrawals. At each reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds. The assets and liabilities underlying the internal investment funds have been consolidated with the general accounts of BDO Unibank Group.

(d) *Liability Adequacy Test*

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

Insurance premiums and insurance benefits and claims on insurance contracts are recognized as follows:

(a) *Insurance Premiums*

- (i) *Net insurance premium.* Recognized as gross premium on insurance contracts less reinsurers' share of gross premiums.
- (ii) *Gross premiums on insurance contracts.* Premiums arising from insurance contracts are initially recognized as income on the effective date of the insurance policies. Subsequent to initial recognition, gross earned premiums on life insurance contracts are recognized as revenue at the date when payments are due.
- (iii) *Reinsurers' share of gross premiums.* Gross reinsurance premiums on traditional and variable contracts are recognized as an expense when the policy becomes effective.

(b) *Insurance Benefits and Claims*

- (i) *Net insurance benefits and claims.* BDO Unibank Group's net insurance benefits and claims consist of gross benefits and claims, reinsurers' share on benefits and claims, gross change in legal policy reserves and reinsurers' share on gross change in legal policy reserves.
- (ii) *Gross benefits and claims.* Gross benefits and claims of the policyholders include the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.
- (iii) *Reinsurers' share on benefits and claims.* Reinsurers' share on benefits and claims pertain to the amount recoverable from reinsurers for recognized claims during the year. These are accounted for when the corresponding claims are recognized.
- (iv) *Gross change in legal policy reserves.* Gross change in legal policy reserves represents the change in the valuation of legal policy reserves recognized as part of Insurance Contract Liabilities account in the statement of financial position.

- (v) *Reinsurers' share on gross change in legal policy reserves.* Reinsurers' share on gross change in legal policy reserves pertain to the reinsurers' share in the change of legal policy reserves. These are accounted for in the same period as the corresponding change in insurance contract liabilities.

2.15 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.16 Equity

Equity consists of the following:

- a. Capital stock represents the nominal value of shares that have been issued.
- b. Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.
- c. Surplus reserves consist of (i) reserve for trust business - represents the accumulated amount set aside by BDO Unibank Group under existing regulations requiring the BDO Unibank Group to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of the regulatory capital and, to the appropriation for general loan loss provision as prescribed by BSP; (ii) reserve for insurance fund and additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 22); and (iii) share options outstanding (SOO) - represents the accumulated total of employee share options' amortizations over the vesting period as the share-based employee remuneration are recognized and reported in the statement of income. SOO will be deducted for any exercise or forfeiture of share options already vested.
- d. Other reserves pertain to amount recognized from increase in percentage of ownership to any of the subsidiaries of BDO Unibank Group.
- e. Surplus free includes all current and prior period results as disclosed in the statement of income and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared, if any.
- f. NUGL on FVOCI compose of cumulative mark-to-market valuation of outstanding securities and accumulated impairment on debt securities classified as FVOCI.
- g. Accumulated actuarial gains (losses) from the remeasurements of post-employment defined benefit plan.
- h. Revaluation increment pertains to gains from the revaluation of land under premises, furniture, fixtures and equipment, which is now treated as part of the deemed cost of the assets (see Note 2.7).

- i. Remeasurement on life insurance reserves arises from the increase or decrease of the reserves brought about by changes in discount rates (see Note 2.14).
- j. Accumulated translation adjustment pertains to foreign exchange differences arising on translation of the resources and liabilities of foreign branch and subsidiaries that are taken up in other comprehensive income (see Note 2.22).
- k. Accumulated share in other comprehensive income (loss) of subsidiaries and associates pertains to changes resulting from the BDO Unibank Group and the Parent Bank's share in other comprehensive income (loss) of subsidiaries and associates or items recognized directly in the subsidiaries and associates' equity.
- l. Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group, which are presented separately in BDO Unibank Group's statement of income, statement of comprehensive income and within the equity in BDO Unibank Group's statement of financial position and changes in equity.

2.17 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between BDO Unibank Group and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with BDO Unibank Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of BDO Unibank Group that gives them significant influence over BDO Unibank Group and close members of the family of any such individual; and, (d) BDO Unibank Group's funded retirement plan (see Note 26.2).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form. The BDO Unibank Group established policies and procedures on related party transactions in accordance with the regulations of the BSP and the SEC. All material related party transactions, which exceed the established materiality thresholds, must undergo prior review from the board-level Related Party Transactions Committee before endorsing the same to the BOD for approval.

Related party transactions, whose value exceeds 10% of the BDO Unibank Group's total resources, either single or aggregated within a 12-month period, require review of an external independent party and approval of two-thirds vote of the BOD, with at least a majority of the independent directors voting affirmatively. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within 12-month period that breaches the materiality threshold of 10% of BDO Unibank Group's total resources based on the latest audited consolidated financial statements, the same approval of the BOD would be required for the transaction that meets and exceeds the materiality threshold covering the same related party.

2.18 Other Income and Expense Recognition

Revenue is recognized only when (or as) the BDO Unibank Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the BDO Unibank Group's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the BDO Unibank Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis, except to the extent that they are capitalized.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The BDO Unibank Group also earns service fees and commissions in various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the BDO Unibank Group in accordance with PFRS 15.

For revenues arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

- (a) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized over time as the service is being provided and is based on the various criteria of recognition for each specific income source. These include the following accounts:
 - (i) *Commission and fees* arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.
 - (ii) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.
 - (iii) *Arranger fees* arising from negotiating or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying assumptions.
 - (iv) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

- (b) *Asset Management Services* – The BDO Unibank Group recognizes trust fees related to asset management services, which include trust and fiduciary services. Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

- (a) *Trading and Securities Gains (Losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVTPL.
- (b) *Gain or loss from assets sold or exchange* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in statement of income as part of Other Operating Income account.
- (c) *Recovery on charged-off assets* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in statement of income as part of Other Operating Income account.

The BDO Unibank Group recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers [see Note 3.2(j)] since such points are redeemable primarily from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.19 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g., legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that BDO Unibank Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

The BDO Unibank Group offers monetized rewards to active account holders in relation to its credit card and marketing rewards program. Provisions for rewards are recognized at a certain rate of the account holders' availments, determined by management based on redeemable amounts.

2.20 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rental under Other Operating Income account in the statement of income on a straight-line basis over the lease term.

(b) BDO Unibank Group as Lessee

For any new contracts entered into, BDO Unibank Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, BDO Unibank Group assesses whether the contract meets three key evaluations which are:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to BDO Unibank Group;
- BDO Unibank Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- BDO Unibank Group has the right to direct the use of the identified asset throughout the period of use. BDO Unibank Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the BDO Unibank Group recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by BDO Unibank Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, BDO Unibank Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The BDO Unibank Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.21). On the other hand, BDO Unibank Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or BDO Unibank Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

BDO Unibank Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense as incurred.

On the statement of financial position, right-of-use assets and lease liabilities have been presented as part of Premises, Furniture, Fixtures and Equipment and Other Liabilities, respectively.

2.21 Impairment of Non-financial Assets

BDO Unibank Group's equity investments, goodwill, branch licenses, trading rights, trademark and customer lists recorded as part of Other Resources, Premises, Furniture, Fixtures and Equipment, Investment Properties and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, branch licenses, customer lists and trading rights are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Except for goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.22 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the Foreign Currency Deposit Unit (FCDU) of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as FVOCI securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for foreign branches and subsidiaries, which are maintained in U.S. dollars (USD), Canadian Dollar (CAD), European Union Euro (Euro), Great Britain Pound (GBP), Japanese Yen (JPY), Hong Kong Dollars (HKD) or Singapore Dollar (SGD).

The operating results and financial position of foreign branches and subsidiaries which are measured using the USD, CAD, Euro, GBP, JPY, HKD or SGD, respectively, are translated to Philippine pesos (BDO Unibank Group's functional currency) as follows:

- (i)* Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii)* Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii)* All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation due from foreign branch and net investment in foreign subsidiaries are recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.16). When a foreign operation is sold, the cumulative amount of exchange differences is recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the USD, CAD, Euro, GBP, JPY, HKD or SGD amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.23 Compensation and Benefits Expense

BDO Unibank Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits, which are recognized as follows:

(a) Post-employment Defined Benefit

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) less the fair value of plan assets at the end of reporting period, together with adjustments for asset ceiling. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used Bloomberg Valuation Service (BVAL) Evaluated Pricing Service to calculate the PHP BVAL Reference Rates which are published by Philippine Dealing & Exchange Corp. (PDEX). These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. If there is a plan amendment, curtailment or settlement during the period, the BDO Unibank Group remeasures its net defined benefit liability or asset using updated actuarial assumptions to determine the current service cost and net interest for the remaining of the annual reporting period after the change to the plan. Net interest is reported as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statement of income.

Past-service costs are recognized immediately in profit or loss in the period of plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays the required employer's contributions into an independent entity, such as the Social Security System. BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the required employer's contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under Other Liabilities account in the statement of financial position.

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by BDO Unibank Group for authorized cause before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognized costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(e) *Bonus Plans*

BDO Unibank Group recognizes a liability and an expense for bonuses based on the BDO Unibank Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits or where there is a past practice that has created a constructive obligation.

(f) *Employee Stock Option Plan*

BDO Unibank Group has an employee stock option plan (ESOP) for its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. None of the BDO Unibank Group's stock plan are cash settled.

All services received in exchange for the grant of the stock options are measured at their fair values using the Black-Scholes option model. Where employees are rewarded using stock options, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. The amount of stock options allocated to the qualified officers is based on the performance of the senior officers as determined by management and it requires a vesting period of five years. These are adjusted accordingly for any resignation or disqualification. The vested options may be exercised within three years from vesting date. The cost of ESOP is amortized over five years (vesting period) starting from the approval of the BOD. The annual amortization of stock options is included in Compensation and benefits under Other Operating Expenses account in the statement of income with corresponding recognition of SOO (included as part of Surplus Reserves under the Equity section of the statement of financial position).

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to capital stock to the nominal (or par) value of the shares issued with any excess being recorded as additional paid-in-capital. In case of forfeiture, the previously recognized share options outstanding will be transferred to additional paid-in-capital.

(g) *Unavailed Leaves*

Unavailed leaves (excluding those qualified under the retirement benefit plan), included in Other Liabilities account, are recognized as expense at the amount BDO Unibank Group expects to pay at the end of reporting period. Unavailed leaves of employees qualified under the retirement plan are valued and funded as part of the present value of DBO in Note 2.23(a).

2.24 Income Taxes

Tax expense recognized in statement of income comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which BDO Unibank Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority (see Note 31.1).

2.25 Earnings Per Share

Basic earnings per share is determined by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing consolidated net profit by the weighted average number of common shares issued and outstanding during the period. However, consolidated net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers (to the extent that shares under the stock option plan shall be issued from the unissued authorized capital stock and not purchased from the market or stock exchange).

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.26 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.27 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about BDO Unibank Group's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group and the Parent Bank's financial statements, prepared in accordance with PFRS, require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI

BDO Unibank Group uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant judgement is required.

BDO Unibank Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument (see Note 4.3.5).

(b) Evaluation of Business Model Applied in Managing Financial Instruments

BDO Unibank Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

BDO Unibank Group developed business models which reflect how it manages its portfolio of financial instruments. BDO Unibank Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by BDO Unibank Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, BDO Unibank Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by BDO Unibank Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to BDO Unibank Group's investment, trading and lending strategies.

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, BDO Unibank Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, BDO Unibank Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, BDO Unibank Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, BDO Unibank Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if BDO Unibank Group can explain the reasons for those sales and why those sales do not reflect a change in BDO Unibank Group's objective for the business model.

In 2021 and 2020, the BDO Unibank Group and the Parent Bank disposed of certain debt securities from its amortized cost portfolio in accordance with its investment policy. Such disposals have qualified under the permitted sale events set forth in BDO Unibank Group's and Parent Bank's business model in managing financial assets manual and the requirements of PFRS 9 (see Note 10.3).

(d) *Distinction Between Investment Properties and Owner-occupied Properties*

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(e) *Distinction Between Operating and Finance Leases for Contracts where BDO Unibank Group is the Lessor*

BDO Unibank Group has entered into various lease agreements as a lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources.

(f) *Determination of Lease Term*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of land and office spaces, the factors that are normally the most relevant are (i) if there are significant penalties should BDO Unibank Group pre-terminate the contract, and (ii) if any leasehold improvements are expected to have a significant remaining value, BDO Unibank Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, BDO Unibank Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

BDO Unibank Group did not include the renewal period as part of the lease term of the land and office spaces because the terms of most of the contracts are renewable upon the mutual agreement of the parties.

The lease term is reassessed if an option is actually exercised or not or BDO Unibank Group becomes obliged to exercise or not. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the BDO Unibank Group.

(g) *Classification and Fair Value Determination of Acquired Properties*

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, chattels as Non-current assets held for sale (presented under Other Resources account) if expected to be recovered through sale rather than use, real properties as Investment Properties if intended to be held for capital appreciation or lease, as financial assets if qualified as such in accordance with PFRS 9 or as Other properties (presented under Other Resources account) if held for sale but the depreciable properties (other than building) are not yet disposed within certain years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties. The BDO Unibank Group's methodology in determining the fair value of acquired properties are further discussed in Note 7.5.

(h) *Assessment of Significant Influence on Entities in which BDO Unibank Group Holds Less than 20% Ownership*

The management considers that the BDO Unibank Group and the Parent Bank have significant influence on NLEX Corporation even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the BDO Unibank Group and the Parent Bank's voting rights, which is based from its acquired right to nominate a director in NLEX Corporation as granted in the Amended and Restated Shareholders' Agreement (ARSA).

ARSA provides that investors shall be entitled to nominate one director for as long as it owns at least 10% of the equity of NLEX Corporation, or shall be entitled to nominate two directors for as long as it owns at least 16.5% of the equity of NLEX Corporation.

Failure to make the right judgment will result in either overstatement or understatement of resources, liabilities, income and expenses.

(i) *Determination of Timing of Satisfaction of Performance Obligations*

BDO Unibank Group determines that its revenues from services for account management, loan administration and fees from annual credit card membership shall be recognized over time. In making its judgment, BDO Unibank Group considers the timing of receipt and consumption of benefits provided by BDO Unibank Group to the customers. As the work is performed, BDO Unibank Group becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the BDO Unibank Group's rendering of these retail and corporate banking services as it performs.

In determining the best method of measuring the progress of the BDO Unibank Group's rendering of aforementioned services, the management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as basis in recognizing revenues. Such measurements include results of performance completed to date and time elapsed.

(j) *Determination of Branch Licenses Having Indefinite Useful Lives*

The BDO Unibank Group's licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the BDO Unibank Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(k) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and relevant disclosures are presented in Note 34.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period.

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and debt instruments measured at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of financial assets at FVOCI, Investment securities at amortized cost and Loans and Other Receivables, and the analysis of the allowance for impairment on such financial assets, are shown in Notes 10.2, 10.3, 11, and 16 respectively.

(b) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The carrying values of the BDO Unibank Group's financial assets at FVTPL and financial assets at FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 10.1 and 10.2, respectively.

(c) *Determination of Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques normally using the discounted cash flow model.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations could affect reported fair value of financial instruments. The value produced by a model or other valuation technique, in some instances, is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

BDO Unibank Group and the Parent Bank use judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(d) *Estimation of Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources*

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties, including trademark and computer software license, based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The BDO Unibank's goodwill and branch licenses were regarded as having indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the BDO Unibank Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 12 while investment properties and other resources, including trademark, goodwill and branch licenses, are analyzed in Notes 14 and 15, respectively.

(e) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

BDO Unibank Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the BDO Unibank Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(f) *Determination of Assumptions for Management's Estimation of Fair Value of Investment Properties*

Investment properties are measured using the cost model. The fair value disclosed in Note 13 to the financial statements is determined by BDO Unibank Group using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period such as selling price under installment sales, expected timing of sale and appropriate discount rates. The expected selling price is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition (see Note 7.5).

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) *Determination of Realizable Amount of Deferred Tax Assets*

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is applied by the management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of BDO Unibank Group's future taxable income. The BDO Unibank Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2021 and 2020 is disclosed in Note 31.1.

(b) *Impairment of Non-financial Assets*

Except for goodwill and other intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.21. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 16.

(i) *Valuation of Post-employment Defined Benefit*

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions in estimating such obligation are presented in Note 26.2.

(j) *Recognition of Reward Points*

BDO Unibank Group provides rewards points to its banking clients and customers based on the month-to-date average daily balance they maintain in their personal CASA. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group sets up a liability to cover the cost of future reward redemptions for points earned to date. The estimated liability is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its estimates for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The estimated liability for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party or affiliated retail partners based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group are presented as part of Accrued expenses under Other Liabilities account in the statement of financial position as disclosed in Note 21.

(k) Valuation of Legal Policy Reserves

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, and valuation method subject to the provisions of the Insurance Code and guidelines set by IC.

The liability for life insurance contracts uses the discount rate as provided by the IC with other assumptions based on best estimate with regard to significant recent experience and appropriate margin for adverse deviation from the expected experience. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, lapse, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths and lapses for each of the years in which the BDO Unibank Group is exposed to risk. The BDO Unibank Group uses mortality tables and lapse rates subject to the guidelines set by the IC as the basis of these estimates. The estimated number of lapses, deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

(l) Fair Value Measurement of Share Options

The BDO Unibank Group estimates the fair value of the executive stock option by applying the Black-Scholes Option pricing model, considering the terms and conditions on which the stock option plan was granted. The estimates and assumptions used include, among others, the option's vesting period, applicable risk-free interest rate, expected dividend yield, volatility of the BDO Unibank Group's share price, and fair value of the BDO Unibank Group's common shares. Changes in these factors can affect the fair value of stock options at grant date.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the BDO Unibank Group will pursue its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The BDO Unibank Group believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the BDO Unibank Group is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The BDO Unibank Group's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the BDO Unibank Group ensures:

- strong financial position by maintaining adequate capital ratios;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the BDO Unibank Group ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the BDO Unibank Group's activities and transactions.

Risk management at BDO Unibank Group begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Executive Committee. The Executive Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving risk appetite levels, policies, and risk tolerance limits related to credit portfolio risk, market risk, liquidity risk, interest rate risk, operational risk (including business continuity risk, IT risk, information security and cyber-security risk, data privacy risk, and social media risk), consumer protection risk and environmental and social risk to ensure that current and emerging risk exposures are consistent with BDO Unibank Group's strategic direction and overall risk appetite.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the BDO Unibank Group's statement of financial position, including the BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

BDO Unibank Group operates an enterprise-wide risk management system to address the risks it faces in its banking activities. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the BDO Unibank Group's activities across the different risk areas, i.e., credit, market, liquidity, interest rate, and operational risks, including business continuity risk, IT risk, information security, cyber-security, and data privacy risk, to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the BDO Unibank Group is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the BDO Unibank Group's business. The goal of the risk management process is to ensure rigorous adherence to the BDO Unibank Group's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

In 2021, there is no significant change on the policies and process for managing the risk and the methods used to measure the risk of the BDO Unibank Group and the Parent Bank, except for the performance of the comprehensive review of the financial instruments, particularly for loan accounts, to assess vulnerability to the significant increase in credit risk in response to the continuing impact of COVID-19 pandemic, updating of the BDO Unibank Group's Treasury system to capture the complex computation of Secured Overnight Financing Rate (SOFR) in relation to the LIBOR phase out and adhering to the protocols set by International Swaps and Derivatives Association (ISDA) on LIBOR Reform (see Note 4.6).

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to repay depositors, to fulfill commitments to lend, or to meet any other liquidity commitments. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage and control liquidity gaps through Maximum Cumulative Outflow (MCO) limits, regular liquidity stress testing to ensure positive cashflow across all identified stress scenarios, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2021 and 2020 in accordance with account classification of the BSP is presented in the succeeding pages. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2021				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 69,105	P -	P -	P -	P 69,105
Due from BSP and other banks	150,526	22,027	55,300	147,145	374,998
Trading and investment securities	22,687	31,904	140,229	421,441	616,261
Loans and other receivables - net	503,503	252,927	395,115	1,299,358	2,450,903
Other resources - net*	-	118	46	112,318	112,482
Total Resources	<u>745,821</u>	<u>306,976</u>	<u>590,690</u>	<u>1,980,262</u>	<u>3,623,749</u>
Liabilities and Equity:					
Deposit liabilities	563,666	177,738	595,385	1,484,107	2,820,896
Bills payable	24,278	89,567	55,139	35,447	204,431
Insurance contract liabilities**	349	(613)	206	65,386	65,328
Other liabilities	41,159	4,099	4,601	58,687	108,546
Total Liabilities	629,452	270,791	655,331	1,643,627	3,199,201
Equity	-	-	-	424,548	424,548
Total Liabilities and Equity	<u>629,452</u>	<u>270,791</u>	<u>655,331</u>	<u>2,068,175</u>	<u>3,623,749</u>
On-book gap	<u>116,369</u>	<u>36,185</u>	<u>(64,641)</u>	<u>(87,913)</u>	<u>-</u>
Cumulative on-book gap	<u>116,369</u>	<u>152,554</u>	<u>87,913</u>	<u>-</u>	<u>-</u>
Contingent assets	263,000	81,896	20,865	23,227	388,988
Contingent liabilities	325,897	82,924	28,606	23,100	460,527
Off-book gap	<u>(62,897)</u>	<u>(1,028)</u>	<u>(7,741)</u>	<u>127</u>	<u>(71,539)</u>
Net Periodic Gap	<u>53,472</u>	<u>35,157</u>	<u>(72,382)</u>	<u>(87,786)</u>	<u>71,539</u>
Cumulative Total Gap	<u>P 53,472</u>	<u>P 88,629</u>	<u>P 16,247</u>	<u>(P 71,539)</u>	<u>P -</u>

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

** Insurance Contract Liabilities with maturity of more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

BDO Unibank Group

	2020				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 74,851	P -	P -	P -	P 74,851
Due from BSP and other banks	177,536	625	3,147	192,617	373,925
Trading and investment securities	78,817	20,246	102,007	307,740	508,810
Loans and other receivables - net	446,216	249,633	345,380	1,260,752	2,301,981
Other resources - net*	-	108	40	115,185	115,333
Total Resources	777,420	270,612	450,574	1,876,294	3,374,900
Liabilities and Equity:					
Deposit liabilities	589,956	22,147	30,071	1,967,977	2,610,151
Bills payable	34,050	33,142	112,819	29,733	209,744
Insurance contract liabilities**	409	443	(460)	58,018	58,410
Other liabilities	36,785	1,596	1,623	63,570	103,574
Total Liabilities	661,200	57,328	144,053	2,119,298	2,981,879
Equity	-	-	-	393,021	393,021
Total Liabilities and Equity	661,200	57,328	144,053	2,512,319	3,374,900
On-book gap	116,220	213,284	306,521	(636,025)	-
Cumulative on-book gap	116,220	329,504	636,025	-	-
Contingent assets	225,816	56,673	26,387	16,559	325,435
Contingent liabilities	279,492	58,342	26,171	16,462	380,467
Off-book gap	(53,676)	(1,669)	216	97	(55,032)
Net Periodic Gap	62,544	211,615	306,737	(635,928)	55,032
Cumulative Total Gap	P 62,544	P 274,159	P 580,896	(P 55,032)	P -

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

** Insurance Contract Liabilities with maturities of one to three months and more than one to three years have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

Parent Bank

	2021				
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Three Years</u>	<u>More Than Three Years</u>	<u>Total</u>
Resources:					
Cash and other cash items	P 66,440	P -	P -	P -	P 66,440
Due from BSP and other banks	143,601	21,971	55,296	146,141	367,009
Trading and investment securities	8,166	27,987	119,732	342,078	497,963
Loans and other receivables – net	494,423	239,634	371,315	1,294,611	2,399,983
Other resources – net*	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,611</u>	<u>134,611</u>
Total Resources	<u>P 712,630</u>	<u>P 289,592</u>	<u>P 546,343</u>	<u>P 1,917,441</u>	<u>P 3,466,006</u>
Liabilities and Equity:					
Deposit liabilities	538,429	175,500	595,264	1,442,522	2,751,715
Bills payable	17,687	89,068	52,305	37,114	196,174
Other liabilities	<u>37,139</u>	<u>2,806</u>	<u>2,543</u>	<u>52,168</u>	<u>94,656</u>
Total Liabilities	593,255	267,374	650,112	1,531,804	3,042,545
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>423,461</u>	<u>423,461</u>
Total Liabilities and Equity	<u>593,255</u>	<u>267,374</u>	<u>650,112</u>	<u>1,955,265</u>	<u>3,466,006</u>
On-book gap	<u>119,375</u>	<u>22,218</u>	<u>(103,769)</u>	<u>(37,824)</u>	<u>-</u>
Cumulative on-book gap	<u>119,375</u>	<u>141,593</u>	<u>37,824</u>	<u>-</u>	<u>-</u>
Contingent assets	259,638	63,697	2,998	3,022	329,355
Contingent liabilities	<u>322,537</u>	<u>64,872</u>	<u>10,972</u>	<u>3,021</u>	<u>401,402</u>
Off-book gap	<u>(62,899)</u>	<u>(1,175)</u>	<u>(7,974)</u>	<u>1</u>	<u>(72,047)</u>
Net Periodic Gap	<u>56,476</u>	<u>21,043</u>	<u>(111,743)</u>	<u>(37,823)</u>	<u>72,047</u>
Cumulative Total Gap	<u>P 56,476</u>	<u>P 77,519</u>	<u>(P 34,224)</u>	<u>(P 72,047)</u>	<u>P -</u>

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

Parent Bank

	2020				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Three Years	More Than Three Years	Total
Resources:					
Cash and other cash items	P 72,301	P -	P -	P -	P 72,301
Due from BSP and other banks	173,187	602	3,137	191,434	368,360
Trading and investment securities	63,707	14,954	87,606	233,189	399,456
Loans and other receivables - net	436,324	238,203	325,923	1,259,236	2,259,686
Other resources - net*	-	-	-	135,580	135,580
Total Resources	P 745,519	P 253,759	P 416,666	P 1,819,439	P 3,235,383
Liabilities and Equity:					
Deposit liabilities	569,949	19,984	29,793	1,928,565	2,548,291
Bills payable	25,974	32,629	110,932	33,332	202,867
Other liabilities	33,307	242	-	58,622	92,171
Total Liabilities	629,230	52,855	140,725	2,020,519	2,843,329
Equity	-	-	-	392,054	392,054
Total Liabilities and Equity	629,230	52,855	140,725	2,412,573	3,235,383
On-book gap	116,289	200,904	275,941	(593,134)	-
Cumulative on-book gap	116,289	317,193	593,134	-	-
Contingent assets	216,952	54,412	3,278	1,579	276,221
Contingent liabilities	270,656	56,271	3,322	1,605	331,854
Off-book gap	(53,704)	(1,859)	(44)	(26)	(55,633)
Net Periodic Gap	62,585	199,045	275,897	(593,160)	55,633
Cumulative Total Gap	P 62,585	P 261,630	P 537,527	(P 55,633)	P -

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of resources and liabilities. The MCO measures the maximum funding requirement the BDO Unibank Group may need to support its maturing obligations. To ensure that the BDO Unibank Group maintains a prudent and manageable level of cumulative negative gap, the BDO Unibank Group maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the BDO Unibank Group's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management.

In case of breach in the MCO Limit, the RMG elevates the concern to the BOD through the RMC for corrective action by senior management. Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

Pursuant to applicable BSP regulations, the BDO Unibank Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the BDO Unibank Group demand deposit accounts with the BSP. The BSP also requires the BDO Unibank Group to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

4.1.1 Liquidity Risk Stress

To augment the effectiveness of the BDO Unibank Group's gap analysis, the BDO Unibank Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the BDO Unibank Group are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular No. 981, *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to RMC.

4.1.2 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described in this section also apply to the management of any foreign currency to which the BDO Unibank Group maintains significant exposure. Specifically, the BDO Unibank Group ensures that its measurement, monitoring and control systems account for these exposures as well. The BDO Unibank Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The BDO Unibank Group also assesses its access to foreign exchange markets when setting up its risk limits.

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. The Market and Liquidity Risk Management Unit of the Parent Bank recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and the BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities. BSP regulations impose a cap of 25% of qualifying capital or US\$150 million, whichever is lower, on a bank's consolidated net open foreign exchange position. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure at end-of-day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits.

In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries. The breakdown of the financial assets and financial liabilities as to foreign and peso-denominated balances as of December 31, 2021 and 2020 follows:

BDO Unibank Group

	2021			2020		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	P 107	P 373,904	P 374,011	P 118	P 383,369	P 383,487
Due from other banks	68,401	1,691	70,092	64,877	412	65,289
Trading and investment securities:						
At FVTPL	6,622	41,312	47,934	5,701	31,409	37,110
At FVOCI	86,804	83,989	170,793	88,748	96,133	184,881
At amortized cost	164,529	233,005	397,534	153,492	133,327	286,819
Loans and other receivables	331,327	2,119,576	2,450,903	292,865	2,009,116	2,301,981
Other resources	6,214	1,246	7,460	8,824	438	9,262
	<u>P 664,004</u>	<u>P 2,854,723</u>	<u>P 3,518,727</u>	<u>P 614,625</u>	<u>P 2,654,204</u>	<u>P 3,268,829</u>
Liabilities:						
Deposit liabilities	P 463,368	P 2,357,528	P 2,820,896	P 418,262	P 2,191,889	P 2,610,151
Bills payable	120,920	83,511	204,431	126,894	82,850	209,744
Insurance contract liabilities	8,702	56,626	65,328	8,376	50,034	58,410
Other liabilities	16,951	80,666	97,617	6,850	86,890	93,740
	<u>P 609,941</u>	<u>P 2,578,331</u>	<u>P 3,188,272</u>	<u>P 560,382</u>	<u>P 2,411,663</u>	<u>P 2,972,045</u>

Parent Bank

	2021			2020		
	Foreign Currencies	Philippine Pesos	Total	Foreign Currencies	Philippine Pesos	Total
Resources:						
Cash and other cash items and due from BSP	P 33	P 369,067	P 369,100	P 41	P 377,339	P 377,380
Due from other banks	64,188	161	64,349	63,015	266	63,281
Trading and investment securities:						
At FVTPL	2,759	1,857	4,616	3,037	1,825	4,862
At FVOCI	74,197	41,768	115,965	71,907	55,015	126,922
At amortized cost	159,235	218,147	377,382	146,757	120,915	267,672
Loans and other receivables	330,424	2,069,559	2,399,983	291,879	1,967,807	2,259,686
Other resources	5,784	968	6,752	8,756	78	8,834
	<u>P 636,620</u>	<u>P 2,701,527</u>	<u>P 3,338,147</u>	<u>P 585,392</u>	<u>P 2,523,245</u>	<u>P 3,108,637</u>
Liabilities:						
Deposit liabilities	P 450,484	P 2,301,231	P 2,751,715	P 401,030	P 2,147,261	P 2,548,291
Bills payable	119,738	76,436	196,174	126,711	76,156	202,867
Other liabilities	15,927	69,452	85,379	6,188	77,727	83,915
	<u>P 586,149</u>	<u>P 2,447,119</u>	<u>P 3,033,268</u>	<u>P 533,929</u>	<u>P 2,301,144</u>	<u>P 2,835,073</u>

4.2.2 Interest Rate Risk

BDO Unibank Group prepares an interest rate gap analysis in the Banking Book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The Banking Book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from retail and corporate customers. The Banking Book can also include those derivatives that are used to hedge exposures arising from the Banking Book activity, including interest rate risk. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities in the Banking Book.

An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. Interest rate financial instruments (e.g., interest rate derivatives) may be used to hedge the interest rate exposures in the Banking Book. There are however, no outstanding interest rate derivatives used as hedges in the Banking Book.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2021 and 2020 based on the expected interest realization or recognition are shown below and in the succeeding pages.

BDO Unibank Group

	2021					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 69,105	P 69,105
Due from BSP and other banks	41,470	-	-	-	333,528	374,998
Trading and investment securities	8,346	31,238	231,337	297,406	47,934	616,261
Loans and other receivables - net	1,140,250	287,117	904,358	119,178	-	2,450,903
Other resources - net*	-	-	-	-	112,482	112,482
Total Resources	<u>1,190,066</u>	<u>318,355</u>	<u>1,135,695</u>	<u>416,584</u>	<u>563,049</u>	<u>3,623,749</u>
Liabilities and Equity:						
Deposit liabilities	328,737	48,785	48,092	13,868	2,381,414	2,820,896
Bills payable	42,137	89,567	72,727	-	-	204,431
Insurance contract liabilities**	(364)	(1,322)	1,038	39,713	26,263	65,328
Other liabilities	-	33	438	4	108,071	108,546
Total Liabilities	<u>370,510</u>	<u>137,063</u>	<u>122,295</u>	<u>53,585</u>	<u>2,515,748</u>	<u>3,199,201</u>
Equity	-	-	-	-	424,548	424,548
Total Liabilities and Equity (Balance carried forward)	<u>P 370,510</u>	<u>P 137,063</u>	<u>P 122,295</u>	<u>P 53,585</u>	<u>P 2,940,296</u>	<u>P 3,623,749</u>

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

** Insurance Contract Liabilities with maturities of one to three months and more than three months to one year have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

BDO Unibank Group

	2021					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Total Liabilities and Equity (Balance brought forward)	P 370,510	P 137,063	P 122,295	P 53,585	P 2,940,296	P 3,623,749
On-book gap	819,556	181,292	1,013,400	362,999	(2,377,247)	-
Cumulative on-book gap	819,556	1,000,848	2,014,248	2,377,247	-	-
Contingent assets	7,583	4,151	-	-	-	11,734
Contingent liabilities	2,523	4,164	-	-	-	6,687
Off-book gap	5,060	(13)	-	-	-	5,047
Net Periodic Gap	824,616	181,279	1,013,400	362,999	(2,377,247)	(5,047)
Cumulative Total Gap	P 824,616	P 1,005,895	P 2,019,295	P 2,382,294	P 5,047	P -
	2020					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 74,851	P 74,851
Due from BSP and other banks	76,419	-	-	-	297,506	373,925
Trading and investment securities	66,844	19,653	243,498	141,705	37,110	508,810
Loans and other receivables - net	1,033,420	267,692	821,195	179,674	-	2,301,981
Other resources - net*	-	-	-	-	115,333	115,333
Total Resources	1,176,683	287,345	1,064,693	321,379	524,800	3,374,900
Liabilities and Equity:						
Deposit liabilities	379,153	45,248	59,749	13,294	2,112,707	2,610,151
Bills payable	38,852	30,744	117,622	22,526	-	209,744
Insurance contract liabilities**	(180)	21	605	39,976	17,988	58,410
Other liabilities	-	17	112	3	103,442	103,574
Total Liabilities	417,825	76,030	178,088	75,799	2,234,137	2,981,879
Equity	-	-	-	-	393,021	393,021
Total Liabilities and Equity (Balance carried forward)	P 417,825	P 76,030	P 178,088	P 75,799	P 2,627,158	P 3,374,900

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

** Insurance Contract Liabilities with maturity of one to three months have negative aging because the renewal premiums (inflow) are greater than the expected insurance benefit liability.

BDO Unibank Group

	2020					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Total Liabilities and Equity (Balance brought forward)	P 417,825	P 76,030	P 178,088	P 75,799	P 2,627,158	P 3,374,900
On-book gap	758,858	211,315	886,605	245,580	(2,102,358)	-
Cumulative on-book gap	758,858	970,173	1,856,778	2,102,358	-	-
Contingent assets	3,434	1,637	-	-	-	5,071
Contingent liabilities	9,605	3,362	-	-	-	12,967
Off-book gap	(6,171)	(1,725)	-	-	-	(7,896)
Net Periodic Gap	752,687	209,590	886,605	245,580	(2,102,358)	7,896
Cumulative Total Gap	P 752,687	P 962,277	P 1,848,882	P 2,094,462	(P 7,896)	P -

Parent Bank

	2021					
	<u>One to Three Months</u>	<u>More Than Three Months to One Year</u>	<u>More Than One Year to Five Years</u>	<u>More Than Five Years</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 66,440	P 66,440
Due from BSP and other banks	40,800	-	-	-	326,209	367,009
Trading and investment securities	6,023	27,987	202,032	257,306	4,615	497,963
Loans and other receivables - net	1,133,066	279,191	868,587	119,139	-	2,399,983
Other resources - net*	-	-	-	-	134,611	134,611
Total Resources	1,179,889	307,178	1,070,619	376,445	531,875	3,466,006
Liabilities and Equity:						
Deposit liabilities	312,535	44,502	47,101	18,239	2,329,338	2,751,715
Bills payable	35,546	89,068	71,560	-	-	196,174
Other liabilities	-	-	-	-	94,656	94,656
Total Liabilities	348,081	133,570	118,661	18,239	2,423,994	3,042,545
Equity	-	-	-	-	423,461	423,461
Total Liabilities and Equity	348,081	133,570	118,661	18,239	2,847,455	3,466,006
On-book gap	831,808	173,608	951,958	358,206	(2,315,580)	-
Cumulative on-book gap	831,808	1,005,416	1,957,374	2,315,580	-	-
Contingent assets	5,231	2,634	-	-	-	7,865
Contingent liabilities	131	2,634	-	-	-	2,765
Off-book gap	5,100	-	-	-	-	5,100
Net Periodic Gap	836,908	173,608	951,958	358,206	(2,315,580)	(5,100)
Cumulative Total Gap	P 836,908	P 1,010,516	P 1,962,474	P 2,320,680	P 5,100	P -

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

Parent Bank

	2020					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 72,301	P 72,301
Due from BSP and other banks	76,050	-	-	-	292,310	368,360
Trading and investment securities	60,618	14,954	213,307	105,715	4,862	399,456
Loans and other receivables - net	1,025,361	261,052	792,783	180,490	-	2,259,686
Other resources - net*	-	-	-	-	135,580	135,580
Total Resources	1,162,029	276,006	1,006,090	286,205	505,053	3,235,383
Liabilities and Equity:						
Deposit liabilities	363,719	40,255	59,014	17,297	2,068,006	2,548,291
Bills payable	30,776	30,232	115,735	26,124	-	202,867
Other liabilities	-	-	-	-	92,171	92,171
Total Liabilities	394,495	70,487	174,749	43,421	2,160,177	2,843,329
Equity	-	-	-	-	392,054	392,054
Total Liabilities and Equity	394,495	70,487	174,749	43,421	2,552,231	3,235,383
On-book gap	767,534	205,519	831,341	242,784	(2,047,178)	-
Cumulative on-book gap	767,534	973,053	1,804,394	2,047,178	-	-
Contingent assets	1	1,146	-	-	-	1,147
Contingent liabilities	6,244	2,881	-	-	-	9,125
Off-book gap	(6,243)	(1,735)	-	-	-	(7,978)
Net Periodic Gap	761,291	203,784	831,341	242,784	(2,047,178)	7,978
Cumulative Total Gap	P 761,291	P 965,075	P 1,796,416	P 2,039,200	(P 7,978)	P -

* Other resources include Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

The BDO Unibank Group and the Parent Bank's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level, which is a percentage of projected earnings. The BDO Unibank Group and the Parent Bank use the VaR model to estimate the daily potential loss that the BDO Unibank Group and the Parent Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.
- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.
- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.
- Earnings-at-risk (EAR) – The RMG computes the EAR based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in BDO Unibank Group and Parent Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The BDO Unibank Group and the Parent Bank use a 99% confidence level and a 260-day observation period in VaR calculation. The BDO Unibank Group and the Parent Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the BDO Unibank Group and the Parent Bank's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,
- The VaR measure is dependent upon the BDO Unibank Group and the Parent Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the BDO Unibank Group and the Parent Bank use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the BDO Unibank Group and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

	2021		2020	
	VaR	Stress VaR	VaR	Stress VaR
<u>BDO Unibank Group</u>				
Foreign currency risk	(P 8)	(P 107)	(P 30)	(P 480)
Interest rate risk – Peso	(53)	(888)	(85)	(1,083)
Interest rate risk – USD	(13)	(355)	(46)	(581)
	<u>(P 74)</u>	<u>(P 1,350)</u>	<u>(P 161)</u>	<u>(P 2,144)</u>
<u>Parent Bank</u>				
Foreign currency risk	(P 4)	(P 56)	(P 30)	(P 471)
Interest rate risk – Peso	(15)	(252)	(33)	(311)
Interest rate risk – USD	(2)	(36)	(27)	(373)
	<u>(P 21)</u>	<u>(P 344)</u>	<u>(P 90)</u>	<u>(P 1,155)</u>

For the BDO Unibank Group, the earnings perspective using an EAR approach is the more relevant measure for the interest rate risks in the Banking Book given a “going-concern” assumption and also because the component of earnings in focus is net interest income. EAR is a measure of likely earnings volatility for accrual portfolios. The appropriate yield curve used is the relevant benchmark rate and the volatilities of the relevant benchmark interest rate curve are calculated similar to the method employed for VaR. The volatility calculations make use of actual pre-defined time series data, using five-years’ worth of yearly changes, at the 99% confidence level. The frequency of measurement for EAR is monthly. EAR Stress Test uses 300 basis points increase in USD interest rates and 400 basis points increase in Peso interest rates.

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2021 and 2020 is shown below and in the succeeding pages.

BDO Unibank Group

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	<u>(P 8,331)</u>	<u>P 8,331</u>	<u>(P 4,165)</u>	<u>P 4,165</u>
As a percentage of the BDO Unibank Group’s net interest income for 2021	<u>(6.34%)</u>	<u>6.34%</u>	<u>(3.17%)</u>	<u>3.17%</u>
EAR	<u>P 24,347</u>			
As a percentage of the BDO Unibank Group’s net interest income for 2021	<u>18.54%</u>			
Average (1yr) EAR	<u>P 24,391</u>			
Stress EAR	<u>P 31,984</u>			

BDO Unibank Group

	2020			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 7,933)	P 7,933	(P 3,966)	P 3,966
As a percentage of the BDO Unibank Group's net interest income for 2020	(5.93%)	5.93%	(2.97%)	2.97%
EAR	P 23,844			
As a percentage of the BDO Unibank Group's net interest income for 2020	17.83%			
Average (1yr) EAR	P 18,468			
Stress EAR	P 31,236			

Parent Bank

	2021			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 8,404)	P 8,404	(P 4,202)	P 4,202
As a percentage of the Parent Bank's net interest income for 2021	(6.79%)	6.79%	(3.39%)	3.39%
EAR	P 24,735			
As a percentage of the Parent Bank's net interest income for 2021	19.97%			
Average (1yr) EAR	P 24,627			
Stress EAR	P 32,233			

	2020			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 8,089)	P 8,089	(P 4,044)	P 4,044
As a percentage of the Parent Bank's net interest income for 2020	(6.35%)	6.35%	(3.18%)	3.18%
EAR	P 24,494			

Parent Bank

	2020			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
As a percentage of the Parent Bank's net interest income for 2020		<u>19.24%</u>		
Average (1yr) EAR		<u>P 18,938</u>		
Stress EAR		<u>P 31,466</u>		

4.2.3 Price Risk

The BDO Unibank Group and the Parent Bank are exposed to equity securities price risk because of investments in equity securities held by BDO Unibank Group and Parent Bank classified on the statement of financial position either as financial assets at FVOCI or financial assets at FVTPL. The BDO Unibank Group and the Parent Bank are not exposed to commodity price risk. To manage its price risk arising from investments in listed equity securities, BDO Unibank Group maintains a diversified portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table below summarizes the impact of equity prices on listed equity securities classified as financial assets at FVTPL and financial assets at FVOCI on BDO Unibank Group and Parent Bank's net profit after tax and equity as of December 31, 2021 and 2020. The results are based on the volatility assumption of the benchmark equity index, which was 3.52% and 9.71% in 2021 and 2020, respectively, for securities classified as financial assets at FVTPL and FVOCI securities with all other variables held constant and all the BDO Unibank Group and the Parent Bank's equity instruments moved according to the historical correlation with the index.

	Impact on Net Profit After Tax			Impact on Other Comprehensive Income		
	Increase			Increase		
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>						
Financial assets at FVTPL	P 806	P 1,554	P 335	P -	P -	P -
Financial assets at FVOCI	<u>-</u>	<u>-</u>	<u>-</u>	<u>148</u>	<u>350</u>	<u>203</u>
	<u>P 806</u>	<u>P 1,554</u>	<u>P 335</u>	<u>P 148</u>	<u>P 350</u>	<u>P 203</u>
<u>Parent Bank</u>						
Financial assets at FVOCI	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 30</u>	<u>P 291</u>	<u>P 48</u>
	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 30</u>	<u>P 291</u>	<u>P 48</u>

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. RMG undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business.

RMG also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the Credit Committee. On the industry segments, set limits and exposures are monitored and reported to the RMC.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral or corporate and personal guarantees.

4.3.1 Credit Risk Assessment

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified as necessary, and rated based on internal and external factors that affect its performance. On a monthly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current : Grades AAA to B
- Watchlisted : Grade B-
- Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) *Current*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) *Watchlisted*

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) *Adversely Classified*

(i) *Especially Mentioned (EM)*

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to BDO Unibank Group.

(ii) *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses than those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) *Loss*

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost, and FVOCI debt investments. Unless specifically indicated for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2021 and 2020, there are no POCI financial assets in both BDO Unibank Group and Parent Bank's financial statements.

The following table shows the exposure to credit risk as of December 31, 2021 and 2020 for each internal risk grade and the related allowance for ECL:

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Grades AAA to B : Current	P 1,733,845	P -	P -	P 1,733,845
Grade B : Watchlisted	106	30,835	502	31,443
Grade C : EM	5	81,131	2,009	83,145
Grade D : Substandard	-	4,403	7,059	11,462
Grade E : Doubtful	-	-	5,578	5,578
Grade F : Loss	-	-	3,882	3,882
	<u>1,733,956</u>	<u>116,369</u>	<u>19,030</u>	<u>1,869,355</u>
ECL allowance	(7,513)	(17,205)	(13,237)	(37,955)
Carrying amount	<u>P 1,726,443</u>	<u>P 99,164</u>	<u>P 5,793</u>	<u>P 1,831,400</u>
Receivables from customers - consumer				
Grades AAA to B : Current	P 473,747	P -	P 160	P 473,907
Grade B : Watchlisted	9	181	62	252
Grade C : EM	-	1,506	107	1,613
Grade D : Substandard	-	1,356	8,078	9,434
Grade E : Doubtful	-	-	16,658	16,658
Grade F : Loss	-	-	28,974	28,974
	<u>473,756</u>	<u>3,043</u>	<u>54,039</u>	<u>530,838</u>
ECL allowance	(5,554)	(504)	(21,246)	(27,304)
Carrying amount	<u>P 468,202</u>	<u>P 2,539</u>	<u>P 32,793</u>	<u>P 503,534</u>
Other receivables				
Grades AAA to B : Current	P 114,790	P 22	P 238	P 115,050
Grade C : EM	-	41	-	41
Grade D : Substandard	503	407	258	1,168
Grade E : Doubtful	16	-	249	265
Grade F : Loss	-	-	1,929	1,929
	<u>115,309</u>	<u>470</u>	<u>2,674</u>	<u>118,453</u>
ECL allowance	(79)	(77)	(2,328)	(2,484)
Carrying amount	<u>P 115,230</u>	<u>P 393</u>	<u>P 346</u>	<u>P 115,969</u>

BDO Unibank Group

		2021			
		Stage 1	Stage 2	Stage 3	Total
Debt investment securities at					
amortized cost					
Grades AAA to B : Current	P	397,595	P -	P -	P 397,595
Grade E : Doubtful		-	-	1,146	1,146
Grade F : Loss		-	-	264	264
		<u>397,595</u>	<u>-</u>	<u>1,410</u>	<u>399,005</u>
ECL allowance		(61)	-	(1,410)	(1,471)
Carrying amount	P	<u>397,534</u>	P -	P -	P <u>397,534</u>
Debt investment securities at FVOCI					
Grades AAA to B : Current	P	<u>165,461</u>	P -	P -	P <u>165,461</u>
Loan commitments and other					
contingent accounts					
Grades AAA to B : Current	P	112,403	P -	P -	P 112,403
Grade B- : Watchlisted		-	461	-	461
Grade C : EM		-	42	-	42
		<u>112,403</u>	<u>503</u>	<u>-</u>	<u>112,906</u>
ECL allowance		(289)	-	-	(289)
Carrying amount	P	<u>112,114</u>	P <u>503</u>	P -	P <u>112,617</u>
		2020			
		Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate					
Grades AAA to B : Current	P	1,557,559	P -	P -	P 1,557,559
Grade B- : Watchlisted		38	63,088	1,420	64,546
Grade C : EM		99	95,710	2,611	98,420
Grade D : Substandard		-	4,414	1,435	5,849
Grade E : Doubtful		-	-	4,769	4,769
Grade F : Loss		-	-	4,795	4,795
		<u>1,557,696</u>	<u>163,212</u>	<u>15,030</u>	<u>1,735,938</u>
ECL allowance		(6,254)	(11,699)	(10,056)	(28,009)
Carrying amount	P	<u>1,551,442</u>	P <u>151,513</u>	P <u>4,974</u>	P <u>1,707,929</u>
Receivables from customers - consumer					
Grades AAA to B : Current	P	475,080	P -	P -	P 475,080
Grade B- : Watchlisted		9	406	118	533
Grade C : EM		1	3,681	128	3,810
Grade D : Substandard		-	3,062	6,084	9,146
Grade E : Doubtful		-	-	22,699	22,699
Grade F : Loss		-	-	16,496	16,496
		<u>475,090</u>	<u>7,149</u>	<u>45,525</u>	<u>527,764</u>
ECL allowance		(7,795)	(997)	(19,619)	(28,411)
Carrying amount	P	<u>467,295</u>	P <u>6,152</u>	P <u>25,906</u>	P <u>499,353</u>
Other receivables					
Grades AAA to B : Current	P	93,453	P 37	P -	P 93,490
Grade B- : Watchlisted		-	-	78	78
Grade C : EM		1	-	-	1
Grade D : Substandard		501	414	355	1,270
Grade E : Doubtful		17	-	303	320
Grade F : Loss		51	-	1,920	1,971
		<u>94,023</u>	<u>451</u>	<u>2,656</u>	<u>97,130</u>
ECL allowance		(151)	(18)	(2,262)	(2,431)
Carrying amount	P	<u>93,872</u>	P <u>433</u>	P <u>394</u>	P <u>94,699</u>

BDO Unibank Group

	2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost				
Grades AAA to B : Current	P 287,067	P -	P -	P 287,067
Grade E : Doubtful	-	-	1,079	1,079
Grade F : Loss	-	-	263	263
	<u>287,067</u>	<u>-</u>	<u>1,342</u>	<u>288,409</u>
ECL allowance	(248)	-	(1,342)	(1,590)
Carrying amount	<u>P 286,819</u>	<u>P -</u>	<u>P -</u>	<u>P 286,819</u>
Debt investment securities at FVOCI				
Grades AAA to B : Current	<u>P 174,559</u>	<u>P -</u>	<u>P -</u>	<u>P 174,559</u>
Loan commitments and other contingent accounts				
Grades AAA to B : Current	P 96,509	P -	P -	P 96,509
Grade B- : Watchlisted	-	145	-	145
Grade E : Doubtful	-	-	16	16
	<u>96,509</u>	<u>145</u>	<u>16</u>	<u>96,670</u>
ECL allowance	(314)	(3)	-	(317)
Carrying amount	<u>P 96,195</u>	<u>P 142</u>	<u>P 16</u>	<u>P 96,353</u>

The table below sets out the credit quality of trading debt securities of the BDO Unibank Group measured at FVTPL (see Note 10.1).

	2021	2020
Grade:		
AAA	P 4,449	P 4,030
AA+ to AA	330	107
A+ to A-	371	706
BBB+ to BBB-	4,440	4,152
BB+ to BB-	516	185
	<u>P 10,106</u>	<u>P 9,180</u>

The table below shows an analysis of counterparty credit exposures arising from derivative transactions of the BDO Unibank Group. Outstanding derivative exposures to counterparties are generally to investment grade counterparty banks. Derivative transactions with non-bank counterparties are on a fully secured basis.

	Over-the-counter							
	Total		Exchange-traded		Central Counterparties		Other Bilateral Collateralized	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
2021								
Derivative assets	P 190,129	P 6,232	P 131	P 1	P 163,556	P 2,468	P 26,442	P 3,763
Derivative liabilities	201,482	5,742	1,792	-	171,809	2,462	27,881	3,280
2020								
Derivative assets	P 169,313	P 4,468	P 186	P -	P 143,909	P 1,769	P 25,218	P 2,699
Derivative liabilities	177,735	4,129	186	-	154,158	2,001	23,391	2,128

As of December 31, 2021 and 2020, the BDO Unibank Group held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P444,103 and P448,776, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on external rating agencies.

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Grades AAA to B : Current	P 1,728,038	P -	P -	P 1,728,038
Grade B : Watchlisted	-	30,830	502	31,332
Grade C : EM	-	81,131	2,009	83,140
Grade D : Substandard	-	4,403	7,059	11,462
Grade E : Doubtful	-	-	5,578	5,578
Grade F : Loss	-	-	3,878	3,878
	<u>1,728,038</u>	<u>116,364</u>	<u>19,026</u>	<u>1,863,428</u>
ECL allowance	(7,477)	(17,204)	(13,233)	(37,914)
Carrying amount	<u>P 1,720,561</u>	<u>P 99,160</u>	<u>P 5,793</u>	<u>P 1,825,514</u>
Receivables from customers - consumer				
Grades AAA to B : Current	P 438,721	P -	P -	P 438,721
Grade B : Watchlisted	-	181	62	243
Grade C : EM	-	1,468	47	1,515
Grade D : Substandard	-	1,094	8,013	9,107
Grade E : Doubtful	-	-	11,677	11,677
Grade F : Loss	-	-	26,860	26,860
	<u>438,721</u>	<u>2,743</u>	<u>46,659</u>	<u>488,123</u>
ECL allowance	(5,194)	(414)	(19,752)	(25,360)
Carrying amount	<u>P 433,527</u>	<u>P 2,329</u>	<u>P 26,907</u>	<u>P 462,763</u>
Other receivables				
Grades AAA to B : Current	P 110,798	P -	P -	P 110,798
Grade D : Substandard	502	406	251	1,159
Grade E : Doubtful	-	-	211	211
Grade F : Loss	-	-	1,856	1,856
	<u>111,300</u>	<u>406</u>	<u>2,318</u>	<u>114,024</u>
ECL allowance	(31)	(77)	(2,210)	(2,318)
Carrying amount	<u>P 111,269</u>	<u>P 329</u>	<u>P 108</u>	<u>P 111,706</u>
Debt investment securities at amortized cost				
Grades AAA to B : Current	P 377,427	P -	P -	P 377,427
Grade E : Doubtful	-	-	1,146	1,146
Grade F : Loss	-	-	264	264
	<u>377,427</u>	<u>-</u>	<u>1,410</u>	<u>378,837</u>
ECL allowance	(45)	-	(1,410)	(1,455)
Carrying amount	<u>P 377,382</u>	<u>P -</u>	<u>P -</u>	<u>P 377,382</u>
Debt investment securities at FVOCI				
Grades AAA to B : Current	<u>P 114,095</u>	<u>P -</u>	<u>P -</u>	<u>P 114,095</u>
Loan commitments and other contingent accounts				
Grades AAA to B : Current	P 112,403	P -	P -	P 112,403
Grade B : Watchlisted	-	461	-	461
Grade C : EM	-	42	-	42
	<u>112,403</u>	<u>503</u>	<u>-</u>	<u>112,906</u>
ECL allowance	(289)	-	-	(289)
Carrying amount	<u>P 112,114</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,617</u>

Parent Bank

	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Grades AAA to B : Current	P 1,554,068	P -	P -	P 1,554,068
Grade B : Watchlisted	-	62,906	1,419	64,325
Grade C : EM	-	95,710	2,611	98,321
Grade D : Substandard	-	4,414	1,435	5,849
Grade E : Doubtful	-	-	4,769	4,769
Grade F : Loss	-	-	4,793	4,793
	<u>1,554,068</u>	<u>163,030</u>	<u>15,027</u>	<u>1,732,125</u>
ECL allowance	(6,200)	(11,699)	(10,053)	(27,952)
Carrying amount	<u>P 1,547,868</u>	<u>P 151,331</u>	<u>P 4,974</u>	<u>P 1,704,173</u>
Receivables from customers - consumer				
Grades AAA to B : Current	P 446,247	P -	P -	P 446,247
Grade B : Watchlisted	-	406	4	410
Grade C : EM	-	3,063	58	3,121
Grade D : Substandard	-	1,121	5,714	6,835
Grade E : Doubtful	-	-	21,525	21,525
Grade F : Loss	-	-	14,232	14,232
	<u>446,247</u>	<u>4,590</u>	<u>41,533</u>	<u>492,370</u>
ECL allowance	(7,558)	(671)	(17,808)	(26,037)
Carrying amount	<u>P 438,689</u>	<u>P 3,919</u>	<u>P 23,725</u>	<u>P 466,333</u>
Other receivables				
Grades AAA to B : Current	P 88,062	P -	P -	P 88,062
Grade D : Substandard	494	413	352	1,259
Grade E : Doubtful	-	-	291	291
Grade F : Loss	-	-	1,853	1,853
	<u>88,556</u>	<u>413</u>	<u>2,496</u>	<u>91,465</u>
ECL allowance	(62)	(19)	(2,204)	(2,285)
Carrying amount	<u>P 88,494</u>	<u>P 394</u>	<u>P 292</u>	<u>P 89,180</u>
Debt investment securities at amortized cost				
Grades AAA to B : Current	P 267,901	P -	P -	P 267,901
Grade E : Doubtful	-	-	1,079	1,079
Grade F : Loss	-	-	263	263
	<u>267,901</u>	<u>-</u>	<u>1,342</u>	<u>269,243</u>
ECL allowance	(229)	-	(1,342)	(1,571)
Carrying amount	<u>P 267,672</u>	<u>P -</u>	<u>P -</u>	<u>P 267,672</u>
Debt investment securities at FVOCI				
Grades AAA to B : Current	<u>P 121,848</u>	<u>P -</u>	<u>P -</u>	<u>P 121,848</u>
Loan commitments and other contingent accounts				
Grades AAA to B : Current	P 96,509	P -	P -	P 96,509
Grade B : Watchlisted	-	145	-	145
Grade E : Doubtful	-	-	16	16
	<u>96,509</u>	<u>145</u>	<u>16</u>	<u>96,670</u>
ECL allowance	(314)	(3)	-	(317)
Carrying amount	<u>P 96,195</u>	<u>P 142</u>	<u>P 16</u>	<u>P 96,353</u>

The table below sets out the credit quality of trading debt securities of the Parent Bank measured at FVTPL (see Note 10.1).

	<u>2021</u>		<u>2020</u>
Grade:			
AAA	P 1,756	P	1,707
AA+ to AA	5		2
BBB+ to BBB-	169		1,327
BB+ to BB-	<u>216</u>		<u>56</u>
	<u>P 2,146</u>	P	<u>3,092</u>

The table below shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Parent Bank are generally fully collateralized by cash.

	<u>Total</u>		<u>Exchange-traded</u>		<u>Over-the-counter</u>			
					<u>Central Counterparties</u>		<u>Other Bilateral Collateralized</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<u>2021</u>								
Derivative assets	P 163,687	P 2,469	P 131	P -	P 163,556	P 2,469	P -	P -
Derivative liabilities	171,940	2,462	131	-	171,809	2,462	-	-
<u>2020</u>								
Derivative assets	P 144,095	P 1,769	P 186	P -	P 143,909	P 1,769	P -	P -
Derivative liabilities	154,345	2,001	186	-	154,159	2,001	-	-

As of December 31, 2021 and 2020, the Parent Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P433,449 and P440,661, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on external rating agencies.

4.3.3 Concentrations of Credit Risk

The BDO Unibank Group and the Parent Bank monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below and in the succeeding page.

BDO Unibank Group

	2021			2020		
	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	P 547,827	P 397,823	P 438,014	P 531,246	P 335,487	P 355,937
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	356,129	-	-	315,727	-
Real estate activities	-	307,048	21,656	9	308,681	20,856
Wholesale and retail trade	-	282,446	953	-	271,485	863
Electricity, gas, steam and air-conditioning supply	-	282,036	23,345	4	265,210	24,195
Manufacturing	-	206,445	14,198	-	195,586	12,482
Transportation and storage	-	88,043	4,190	1	92,578	4,411
Arts, entertainment and recreation	-	77,010	715	-	77,734	-
Construction	-	68,951	102	-	69,067	1,050
Information and communication	-	42,845	5,962	-	34,477	2,306
Accommodation and food service activities	-	39,937	-	-	39,699	4,097
Education	-	37,199	-	-	32,296	-
Human health and social work activities	-	30,653	901	-	29,859	853
Water supply, sewerage waste management and remediation activities	-	26,912	148	-	24,017	-
Agriculture, forestry and fishing	-	15,266	-	-	15,011	-
Mining and quarrying	-	10,175	1,279	-	16,172	1,089
Professional, scientific and technical services	-	9,642	975	-	10,255	946
Administrative and support services	-	7,592	1,262	-	8,237	-
Public administrative and defense; compulsory social security	-	693	2,629	-	723	2,524
Activities of extra-territorial and organizations and bodies	-	-	-	-	5	-
Other service activities	54	113,348	64,475	122	121,396	44,843
	P 547,881	P 2,400,193	P 580,804	P 531,382	P 2,263,702	P 476,452
Concentration by location:						
Philippines	P 400,581	P 2,261,065	P 486,987	P 409,805	P 2,137,037	P 381,831
Foreign countries	147,300	139,128	93,817	121,577	126,665	94,621
	P 547,881	P 2,400,193	P 580,804	P 531,382	P 2,263,702	P 476,452

* Cash and cash equivalents include cash and other cash items, due from BSP and other banks, reverse repurchase agreements, FCNC, certain interbank loans receivables and investment securities at amortized cost (see Note 2.5).

**Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.

Parent Bank

	2021			2020		
	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	P 535,932	P 397,733	P 414,478	P 520,663	P 334,720	P 320,309
Electricity, gas, steam and air-conditioning supply	-	281,990	21,731	4	265,067	22,842
Real estate activities	-	308,053	16,953	4	310,133	15,245
Transportation and storage	-	88,607	3,630	1	93,701	3,694
Wholesale and retail traded	-	278,173	953	-	268,590	863
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	347,713	-	-	307,500	-
Manufacturing	-	205,679	12,891	-	195,035	10,855
Arts, entertainment and recreation	-	76,004	715	-	76,699	-
Construction	-	68,108	102	-	68,752	1,050
Accommodation and food service activities	-	39,688	-	-	39,484	4,097
Information and communication	-	42,634	3,802	-	34,276	324
Human health and social work activities	-	30,392	901	-	29,693	853
Water supply, sewerage waste management and remediation activities	-	26,870	148	-	24,014	-
Mining and quarrying	-	10,122	1,279	-	16,150	1,089
Agriculture, forestry and fishing	-	14,600	-	-	14,368	-
Professional, scientific and technical services	-	9,601	975	-	10,241	946
Administrative and support services	-	7,430	1,262	-	8,182	-
Education	-	4,373	-	-	5,043	-
Public administrative and defense; compulsory social security	-	693	2,629	-	723	2,524
Activities of extra-territorial and organizations bodies	-	-	-	-	5	-
Other service activities	-	113,088	15,098	-	122,119	11,097
	P 535,932	P 2,351,551	P 497,547	P 520,672	P 2,224,495	P 395,788
Concentration by location						
Philippines	P 391,881	P 2,212,423	P 410,296	P 400,914	P 2,098,414	P 310,300
Foreign countries	144,051	139,128	87,251	119,758	126,081	85,488
	P 535,932	P 2,351,551	P 497,547	P 520,672	P 2,224,495	P 395,788

* Cash and cash equivalents include cash and other cash items, due from BSP and other banks, reverse repurchase agreements, FCNC, certain interbank loans receivables and investment securities at amortized cost (see Note 2.5).

**Receivables from customers are reported as gross of allowance but net of unearned interests or discounts.

4.3.4 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group and the Parent Bank hold collateral against credit exposures from customers in the form of mortgage interests over property, other registered securities over assets, financial collateral including deposits, debt and equity securities, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically. Collateral generally is not held over from due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity.

There is no significant change on the quality of the collateral and other security enhancements held against the credit exposures except for the fair value of the collaterals driven by the change in market conditions.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Receivable from customers – corporate:				
Property	P 643,403	P 575,492	P 632,969	P 571,158
Equity securities	119,361	115,910	117,459	115,741
Hold-out deposits	31,257	104,036	30,986	103,941
Debt securities	2,298	2,559	1,252	2,474
Others	105,236	237,625	105,024	229,483
	<u>901,555</u>	<u>1,035,622</u>	<u>887,690</u>	<u>1,022,797</u>
Receivable from customers – consumer:				
Property	558,874	515,491	545,335	515,491
Hold-out deposits	52	2,864	52	2,844
Debt securities	989	423	989	128
Equity securities	146	805	146	100
Others	212,603	218,756	202,216	218,590
	<u>772,664</u>	<u>738,339</u>	<u>748,738</u>	<u>737,153</u>
Other receivables:				
Property	1,832	1,696	1,668	1,696
Others	17,095	16,729	15,800	14,135
	<u>18,927</u>	<u>18,425</u>	<u>17,468</u>	<u>15,831</u>
	<u>P 1,693,146</u>	<u>P 1,792,386</u>	<u>P 1,653,896</u>	<u>P 1,775,781</u>

As of December 31, 2021 and 2020, no collateral is held for due from other banks and trading and investment securities.

The BDO Unibank Group and the Parent Bank have recognized certain properties arising from foreclosures in settlement of loan account amounting to P13,523 and P13,479, respectively, in 2021 and P13,757 and P13,743, respectively, in 2020 (see Note 14 and 15.5).

BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The general creditworthiness of a corporate and individual customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 4.3.2). However, collateral provides additional security and the BDO Unibank Group generally requests that corporate and individual borrowers provide it. The BDO Unibank Group may take collateral in the form of a first charge over real estate, floating charges over all corporate and individual assets and other liens and guarantees.

While the BDO Unibank Group is focused on corporate and individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate and individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the BDO Unibank Group obtains appraisals or valuation of collateral to provide input into determining the management credit risk actions.

(a) *Receivable from Customers and Other Receivables*

The net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables and the value of identifiable collateral held against those loans and advances as of December 31, 2021 and 2020 are as follows:

BDO Unibank Group

	<u>2021</u>		<u>2020</u>	
	<u>Net Carrying Amount</u>	<u>Identifiable Collateral</u>	<u>Net Carrying Amount</u>	<u>Identifiable Collateral</u>
Receivable from customers:				
Corporate	P 104,957	P 63,098	P 156,487	P 103,993
Consumer	35,332	74,986	32,058	65,409
Other receivables	739	2,895	827	3,106

Parent Bank

	<u>2021</u>		<u>2020</u>	
	<u>Net Carrying Amount</u>	<u>Identifiable Collateral</u>	<u>Net Carrying Amount</u>	<u>Identifiable Collateral</u>
Receivable from customers:				
Corporate	P 104,953	P 63,083	P 156,305	P 103,810
Consumer	29,236	69,602	27,644	64,668
Other receivables	437	2,438	686	2,910

For each loan, the value of disclosed collateral (mainly collateral properties) is capped at the nominal amount of the loan that it is held against.

(b) *Debt Investment Securities*

The BDO Unibank Group and the Parent Bank invest in non-collateralized debt securities issued by various government and corporate entities. The maximum exposure to credit risk of debt investment securities is equivalent to their carrying amount as of December 31, 2021 and December 31, 2020 as shown below:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Debt securities:				
At amortized cost	P 397,534	P 286,819	P 377,382	P 267,672
At FVOCI	165,461	174,559	114,095	121,848
At FVTPL	<u>10,106</u>	<u>9,180</u>	<u>2,146</u>	<u>3,092</u>
	<u>P 573,101</u>	<u>P 470,558</u>	<u>P 493,623</u>	<u>P 392,612</u>

4.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, BDO Unibank Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The BDO Unibank Group measures credit risk using PD, LGD and EAD.

(a) *Significant Increase in Credit Risk (SICR)*

As outlined in PFRS 9, a '3-stage' impairment model was adopted by the BDO Unibank Group based on changes in credit quality since initial recognition of the financial asset. A financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the BDO Unibank Group as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months. If an SICR since initial recognition is identified, the classification will be moved to 'Stage 2' but is not yet deemed to be credit-impaired. Such assessment is based on the following criteria in determining whether there has been a significant increase in credit risk: (i) qualitative indicators, such as net losses, intermittent delays in payment or restructuring; and (ii) quantitative test based on movement in risk rating and PD. The borrowers can be moved to Stage 1 upon completion of the seasoning period which shall be 6 months of continuous payment with no incident of past due.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the BDO Unibank Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the BDO Unibank Group's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether an SICR has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

(i) *Credit risk grading*

The BDO Unibank Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

(ii) *Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The BDO Unibank Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The BDO Unibank Group employs statistical models to analyze the data collected and generates the term structure of PD estimates.

(iii) *Determining whether credit risk has significantly increased*

The BDO Unibank Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the BDO Unibank Group.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the BDO Unibank Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as net loss, significant drop in risk ratings and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

In 2021 and 2020, the assumptions and estimation technique have been reviewed to consider the continuing impact of the COVID-19 pandemic. In this regard, the BDO Unibank Group and the Parent Bank performed comprehensive review of the financial assets, particularly for loan accounts to assess vulnerability arising from current economic condition, which resulted in the transfer of the classification of some loans from Stage 1 to either Stage 2 or 3 (see Note 35).

(b) Definition of Default

The BDO Unibank Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the BDO Unibank Group in full, without recourse by the BDO Unibank Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the BDO Unibank Group; or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the BDO Unibank Group considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

These criteria have been applied to all financial instruments held by the BDO Unibank Group and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the BDO Unibank Group.

An instrument is considered to have cured when it no longer meets any of the default criteria for a consecutive period of six months. The cure period sets the tolerance period wherein the borrowers are allowed to update the payments in compliance with the regulatory requirements on transfer between stages.

(c) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The BDO Unibank Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The BDO Unibank Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described in the previous page, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the BDO Unibank Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the BDO Unibank Group considers a longer period. The maximum contractual period extends to the date at which the BDO Unibank Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For portfolios in respect of which the BDO Unibank Group has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) issued are used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

There have been no significant changes in the estimation techniques or significant assumptions made by the BDO Unibank Group in 2021.

(d) Collective Basis of Measurement of ECL

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics such as:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and,
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

The groupings are subject to the regular review by the BDO Unibank Group's RMG in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(e) *Forward-looking Information (FLI)*

The BDO Unibank Group incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The BDO Unibank Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth rate, unemployment rate, inflation rate, foreign exchange rates, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different from the projections. The BDO Unibank Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the BDO Unibank Group different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(f) *Modified Financial Assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The BDO Unibank Group renegotiates loans of customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the BDO Unibank Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt but the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, deferment of principal payment, changing the timing of interest payments and amending the terms of loan covenants for such loans as consumer and corporate loans and credit card receivables. All proposals for loan restructuring are for approval by the BDO Unibank Group's Executive Committee.

For financial assets modified as part of the BDO Unibank Group's restructuring policy, the estimate of credit loss will reflect the probability to collect interest and principal. As part of this process, the BDO Unibank Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of an SICR and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 4.3.2). A customer needs to demonstrate consistently good payment behavior over a period of time (in accordance with the new terms for six consecutive months or more) before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

In response to the unprecedented impact of the COVID-19 pandemic, the BDO Unibank Group and the Parent Bank granted to its customers the mandatory reliefs provided by the government through *Bayaniban to Heal as One Act (Bayaniban I)* and *Bayaniban to Recover as One Act (Bayaniban II)*. In addition, it entered into voluntary renegotiations of terms of loans of some other customers with a view of maximizing recovery of the contractual amount of obligation. These relief measures were granted to eligible borrowers to allow them to get back into the habit of paying loans which includes payment relief including extension of contractual terms, principal and interest relief, as well as extension of balloon payment terms (see Note 35).

Financial reliefs provided by the BDO Unibank Group and the Parent Bank and mandated by the government were assessed to be non-substantial modification and has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows using the original effective interest rate were substantially the same.

The following tables provide a summary of the outstanding principal balance net of allowance for impairment of modified loans provided by the BDO Unibank Group and the Parent Bank as of December 31, 2021 and 2020:

BDO Unibank Group

	<u>2021</u>		<u>2020</u>
<u>Stage 1 (Performing)</u>			
Corporate	P 68,893	P	187,822
Consumer	<u>121,081</u>		<u>144,598</u>
	189,974		332,420
Allowance for impairment	<u>(1,404)</u>	<u>(</u>	<u>2,080)</u>
	<u>P 188,570</u>	<u>P</u>	<u>330,340</u>
<u>Stage 2 (Underperforming)</u>			
Corporate	P 98,434	P	83,289
Consumer	<u>1,075</u>		<u>1,448</u>
	99,509		84,737
Allowance for impairment	<u>(15,798)</u>	<u>(</u>	<u>8,645)</u>
	<u>P 83,711</u>	<u>P</u>	<u>76,092</u>
<u>Stage 3 (Non-performing)</u>			
Corporate	P 5,673	P	877
Consumer	<u>7,542</u>		<u>7,933</u>
	13,215		8,810
Allowance for impairment	<u>(4,709)</u>	<u>(</u>	<u>2,740)</u>
	<u>P 8,506</u>	<u>P</u>	<u>6,070</u>

Parent Bank

	<u>2021</u>		<u>2020</u>
<u>Stage 1 (Performing)</u>			
Corporate	P 68,893	P	187,822
Consumer	<u>120,081</u>		<u>143,057</u>
	188,974		330,879
Allowance for impairment	<u>(1,367)</u>	<u>(</u>	<u>2,057)</u>
	<u>P 187,607</u>	<u>P</u>	<u>328,822</u>
<u>Stage 2 (Underperforming)</u>			
Corporate	P 98,434	P	83,289
Consumer	<u>1,054</u>		<u>1,348</u>
	99,488		84,637
Allowance for impairment	<u>(15,793)</u>	<u>(</u>	<u>8,635)</u>
	<u>P 83,695</u>	<u>P</u>	<u>76,002</u>
<u>Stage 3 (Non-performing)</u>			
Corporate	P 5,673	P	877
Consumer	<u>7,006</u>		<u>7,389</u>
	12,679		8,266
Allowance for impairment	<u>(4,521)</u>	<u>(</u>	<u>2,545)</u>
	<u>P 8,158</u>	<u>P</u>	<u>5,721</u>

(g) *Write-offs*

The BDO Unibank Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include cessation of enforcement activity and, where the BDO Unibank Group's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The BDO Unibank Group and the Parent Bank have still, however, enforceable right to receive payment even if the financial assets have been written off except in certain cases.

The BDO Unibank Group and the Parent Bank had written off certain accounts from which it no longer have an enforceable right to receive payment amounting to P1,054 and P1,015 respectively, in 2021, and P654 and P533, respectively, in 2020.

(h) *Credit risk exposure*

The BDO Unibank Group and the Parent Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets as shown below and in the succeeding page.

BDO Unibank Group

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 1,869,355	P 901,555	P 967,800	P 901,555
Consumer	530,838	772,664	-	530,838
Reverse repurchase agreements	17,095	17,095	-	-
Sales contracts receivables	<u>1,283</u>	<u>1,832</u>	<u>-</u>	<u>1,283</u>
	<u>P 2,418,571</u>	<u>P 1,693,146</u>	<u>P 967,800</u>	<u>P 1,433,676</u>
<u>2020</u>				
Loans and discounts:				
Corporate	P 1,735,938	P 1,035,622	P 700,316	P 1,035,622
Consumer	527,764	738,339	-	527,764
Reverse repurchase agreements	16,729	16,729	-	-
Sales contracts receivables	<u>1,016</u>	<u>1,696</u>	<u>-</u>	<u>1,016</u>
	<u>P 2,281,447</u>	<u>P 1,792,386</u>	<u>P 700,316</u>	<u>P 1,564,402</u>

Parent Bank

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 1,863,428	P 887,690	P 975,738	P 887,690
Consumer	488,123	748,738	-	488,123
Reverse repurchase agreements	15,800	15,800	-	-
Sales contracts receivables	<u>1,226</u>	<u>1,668</u>	<u>-</u>	<u>1,226</u>
	<u>P 2,368,577</u>	<u>P 1,653,896</u>	<u>P 975,738</u>	<u>P 1,377,039</u>
<u>2020</u>				
Loans and discounts:				
Corporate	P 1,732,125	P 1,022,797	P 709,328	P 1,022,797
Consumer	492,370	737,153	-	492,370
Reverse Repurchase Agreements	14,135	14,135	-	-
Sales contracts receivables	<u>977</u>	<u>1,696</u>	<u>-</u>	<u>977</u>
	<u>P 2,239,607</u>	<u>P 1,775,781</u>	<u>P 709,328</u>	<u>P 1,516,144</u>

An analysis of the maximum credit risk exposure relating to Stage 3 financial assets as of December 31, 2021 and 2020 is shown below and in the succeeding page.

BDO Unibank Group

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 19,030	P 6,455	P 12,575	P 6,455
Consumer	54,039	68,085	-	54,039
Sales contracts receivables	<u>214</u>	<u>304</u>	<u>-</u>	<u>214</u>
	<u>P 73,283</u>	<u>P 74,844</u>	<u>P 12,575</u>	<u>P 60,708</u>
<u>2020</u>				
Loans and discounts:				
Corporate	P 15,030	P 6,050	P 8,980	P 6,050
Consumer	45,525	60,572	-	45,525
Sales contracts receivables	<u>233</u>	<u>375</u>	<u>-</u>	<u>233</u>
	<u>P 60,788</u>	<u>P 66,997</u>	<u>P 8,980</u>	<u>P 51,808</u>

Parent Bank

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts:				
Corporate	P 19,026	P 6,455	P 12,571	P 6,455
Consumer	46,659	66,296	-	46,659
Sales contracts receivables	<u>212</u>	<u>302</u>	<u>-</u>	<u>212</u>
	<u>P 65,897</u>	<u>P 73,053</u>	<u>P 12,571</u>	<u>P 53,326</u>
<u>2020</u>				
Loans and discounts:				
Corporate	P 15,027	P 6,049	P 8,978	P 6,049
Consumer	41,533	58,390	-	41,533
Sales contracts receivables	<u>206</u>	<u>347</u>	<u>-</u>	<u>206</u>
	<u>P 56,766</u>	<u>P 64,786</u>	<u>P 8,978</u>	<u>P 47,788</u>

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31:

	<u>Notes</u>	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cash equivalents	8, 9	<u>P 444,103</u>	P 448,776	<u>P 433,449</u>	P 440,661
Debt securities:					
At FVOCI	10.2	165,461	174,559	114,095	121,848
At amortized cost	10.3	<u>399,005</u>	<u>288,409</u>	<u>378,837</u>	<u>269,243</u>
		<u>P 564,466</u>	P 462,968	<u>P 492,932</u>	P 391,091

Cash equivalents includes loans and amounts due from BSP and from other banks. Debt securities includes government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

(i) *Loss allowance*

In 2021 and 2020, the BDO Unibank Group and the Parent Bank performed recalibration of its existing ECL model to incorporate in the most-recent default and recovery experience of the BDO Unibank Group and the Parent Bank and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the PD could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure that models are robust, predictive and reliable.

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,254	P 11,699	P 10,056	P 28,009
Transfers to:				
Stage 1	414	(414)	-	-
Stage 2	218	(217)	(1)	-
Stage 3	(7)	(17)	24	-
Net remeasurement of loss allowance	(743)	6,206	1,645	7,108
New financial assets originated or purchased	3,529	877	3,960	8,366
Derecognition of financial assets	(2,227)	(1,151)	(1,352)	(4,730)
Write-offs	-	-	(1,256)	(1,256)
Foreign exchange	75	222	161	458
Balance at December 31	<u>P 7,513</u>	<u>P 17,205</u>	<u>P 13,237</u>	<u>P 37,955</u>
Receivables from customers – consumer				
Balance at January 1	P 7,795	P 997	P 19,619	P 28,411
Transfers to:				
Stage 1	3,290	(630)	(2,660)	-
Stage 2	(210)	379	(169)	-
Stage 3	(2,692)	(393)	3,085	-
Net remeasurement of loss allowance	(3,099)	160	10,152	7,213
New financial assets originated or purchased	1,273	109	1,015	2,397
Derecognition of financial assets	(805)	(118)	(2,234)	(3,157)
Write-offs	-	-	(7,575)	(7,575)
Foreign exchange	2	-	13	15
Balance at December 31	<u>P 5,554</u>	<u>P 504</u>	<u>P 21,246</u>	<u>P 27,304</u>
Other receivables				
Balance at January 1	P 151	P 18	P 2,262	P 2,431
Transfers to:				
Stage 1	13	(1)	(12)	-
Stage 2	-	1	(1)	-
Stage 3	(6)	-	6	-
Net remeasurement of loss allowance	(80)	52	154	126
New financial assets originated or purchased	22	18	527	567
Derecognition of financial assets	(22)	(11)	(474)	(507)
Write-offs	-	-	(135)	(135)
Foreign exchange	1	-	1	2
Balance at December 31	<u>P 79</u>	<u>P 77</u>	<u>P 2,328</u>	<u>P 2,484</u>
Debt investment securities at amortized cost				
Balance at January 1	P 248	P -	P 1,342	P 1,590
Net remeasurement of loss allowance	(180)	-	-	(180)
New financial assets originated or purchased	10	-	-	10
Foreign exchange	5	-	68	73
Derecognition of financial assets	(22)	-	-	(22)
Balance at December 31	<u>P 61</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 1,471</u>
Debt investment securities at FVOCI				
Balance at January 1	P 137	P -	P -	P 137
Net remeasurement of loss allowance	(75)	-	-	(75)
New financial assets originated or purchased	12	-	-	12
Derecognition of financial assets	(24)	-	-	(24)
Balance at December 31	<u>P 50</u>	<u>P -</u>	<u>P -</u>	<u>P 50</u>

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments and other contingent accounts				
Balance at January 1	P 314	P 3	P -	P 317
Net remeasurement of loss allowance	(29)	-	-	(29)
New financial assets originated or purchased	66	-	-	66
Derecognition of financial assets	(65)	(3)	-	(68)
Foreign exchange	3	-	-	3
Balance at December 31	<u>P 289</u>	<u>P -</u>	<u>P -</u>	<u>P 289</u>
	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,609	P 549	P 8,412	P 15,570
Transfers to:				
Stage 1	65	(65)	-	-
Stage 2	(1,639)	1,639	-	-
Stage 3	(32)	(121)	153	-
Net remeasurement of loss allowance	220	8,429	1,212	9,861
New financial assets originated or purchased	3,226	1,333	1,493	6,052
Derecognition of financial assets	(2,166)	(65)	(999)	(3,230)
Foreign exchange	(29)	-	(215)	(244)
Balance at December 31	<u>P 6,254</u>	<u>P 11,699</u>	<u>P 10,056</u>	<u>P 28,009</u>
Receivables from customers – consumer				
Balance at January 1	P 5,050	P 681	P 8,767	P 14,498
Transfers to:				
Stage 1	462	(120)	(342)	-
Stage 2	(201)	249	(48)	-
Stage 3	(1,407)	(1,249)	2,656	-
Net remeasurement of loss allowance	3,060	1,446	10,616	15,122
New financial assets originated or purchased	1,609	276	1,675	3,560
Derecognition of financial assets	(774)	(284)	(1,199)	(2,257)
Write-offs	-	-	(2,497)	(2,497)
Foreign exchange	(4)	(2)	(9)	(15)
Balance at December 31	<u>P 7,795</u>	<u>P 997</u>	<u>P 19,619</u>	<u>P 28,411</u>
Other receivables				
Balance at January 1	P 116	P 269	P 2,213	P 2,598
Transfers to:				
Stage 1	41	-	(41)	-
Stage 2	1	(2)	1	-
Stage 3	(21)	-	21	-
Net remeasurement of loss allowance	(3)	(249)	674	422
New financial assets originated or purchased	37	10	523	570
Derecognition of financial assets	(19)	(10)	(675)	(704)
Write-offs	-	-	(452)	(452)
Foreign exchange	(1)	-	(2)	(3)
Balance at December 31	<u>P 151</u>	<u>P 18</u>	<u>P 2,262</u>	<u>P 2,431</u>
Debt investment securities at amortized cost				
Balance at January 1	P 151	P -	P 1,402	P 1,553
Net remeasurement of loss allowance	90	-	-	90
New financial assets originated or purchased	42	-	-	42
Foreign exchange	(8)	-	(60)	(68)
Derecognition of financial assets	(27)	-	-	(27)
Balance at December 31	<u>P 248</u>	<u>P -</u>	<u>P 1,342</u>	<u>P 1,590</u>

BDO Unibank Group

	2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at January 1	P 100	P -	P -	P 100
Net remeasurement of loss allowance	41	-	-	41
New financial assets originated or purchased	27	-	-	27
Foreign exchange	(1)	-	-	(1)
Derecognition of financial assets	(30)	-	-	(30)
Balance at December 31	<u>P 137</u>	<u>P -</u>	<u>P -</u>	<u>P 137</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 114	P -	P -	P 114
Net remeasurement of loss allowance	21	1	-	22
New financial assets originated or purchased	220	2	-	222
Derecognition of financial assets	(39)	-	-	(39)
Foreign exchange	(2)	-	-	(2)
Balance at December 31	<u>P 314</u>	<u>P 3</u>	<u>P -</u>	<u>P 317</u>

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,200	P 11,699	P 10,053	P 27,952
Transfers to:				
Stage 1	398	(398)	-	-
Stage 2	218	(217)	(1)	-
Stage 3	(7)	(15)	22	-
Net remeasurement of loss allowance	(709)	6,187	1,646	7,124
New financial assets originated or purchased	3,515	877	3,959	8,351
Derecognition of financial assets	(2,213)	(1,151)	(1,351)	(4,715)
Write-offs	-	-	(1,256)	(1,256)
Foreign exchange	75	222	161	458
Balance at December 31	<u>P 7,477</u>	<u>P 17,204</u>	<u>P 13,233</u>	<u>P 37,914</u>
Receivables from customers – consumer				
Balance at January 1	P 7,558	P 671	P 17,808	P 26,037
Transfers to:				
Stage 1	2,832	(409)	(2,423)	-
Stage 2	(206)	370	(164)	-
Stage 3	(2,663)	(349)	3,012	-
Net remeasurement of loss allowance	(2,599)	159	9,508	7,068
New financial assets originated or purchased	1,033	58	797	1,888
Derecognition of financial assets	(763)	(86)	(1,832)	(2,681)
Write-offs	-	-	(6,967)	(6,967)
Foreign exchange	2	-	13	15
Balance at December 31	<u>P 5,194</u>	<u>P 414</u>	<u>P 19,752</u>	<u>P 25,360</u>
Other receivables				
Balance at January 1	P 62	P 19	P 2,204	P 2,285
Transfers to:				
Stage 1	13	(1)	(12)	-
Stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(44)	55	89	100
New financial assets originated or purchased	21	15	520	556
Derecognition of financial assets	(21)	(11)	(465)	(497)
Write-offs	-	-	(128)	(128)
Foreign exchange	1	-	1	2
Balance at December 31	<u>P 31</u>	<u>P 77</u>	<u>P 2,210</u>	<u>P 2,318</u>

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost				
Balance at January 1	P 229	P -	P 1,342	P 1,571
Net remeasurement of loss allowance	(175)	-	-	(175)
New financial assets originated or purchased	5	-	-	5
Foreign exchange	5	-	68	73
Derecognition of financial assets	(19)	-	-	(19)
Balance at December 31	<u>P 45</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 1,455</u>
Debt investment securities at FVOCI				
Balance at January 1	P 108	P -	P -	P 108
Net remeasurement of loss allowance	(63)	-	-	(63)
New financial assets originated or purchased	8	-	-	8
Derecognition of financial assets	(16)	-	-	(16)
Balance at December 31	<u>P 37</u>	<u>P -</u>	<u>P -</u>	<u>P 37</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 314	P 3	P -	P 317
Net remeasurement of loss allowance	(29)	-	-	(29)
New financial assets originated or purchased	66	-	-	66
Derecognition of financial assets	(65)	(3)	-	(68)
Foreign exchange	3	-	-	3
Balance at December 31	<u>P 289</u>	<u>P -</u>	<u>P -</u>	<u>P 289</u>
2020				
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,520	P 538	P 7,991	P 15,049
Transfers to:				
Stage 1	46	(46)	-	-
Stage 2	(1,638)	1,638	-	-
Stage 3	(26)	(108)	134	-
Net remeasurement of loss allowance	219	8,405	961	9,585
New financial assets originated or purchased	3,212	1,331	1,485	6,028
Derecognition of financial assets	(2,104)	(59)	(303)	(2,466)
Write-offs	-	-	-	-
Foreign exchange	(29)	-	(215)	(244)
Balance at December 31	<u>P 6,200</u>	<u>P 11,699</u>	<u>P 10,053</u>	<u>P 27,952</u>
Receivables from customers – consumer				
Balance at January 1	P 4,549	P 541	P 7,243	P 12,333
Transfers to:				
Stage 1	141	(61)	(80)	-
Stage 2	(139)	174	(35)	-
Stage 3	(1,279)	(335)	1,614	-
Net remeasurement of loss allowance	3,302	375	11,009	14,686
New financial assets originated or purchased	1,410	116	1,172	2,698
Derecognition of financial assets	(422)	(137)	(731)	(1,290)
Write-offs	-	-	(2,375)	(2,375)
Foreign exchange	(4)	(2)	(9)	(15)
Balance at December 31	<u>P 7,558</u>	<u>P 671</u>	<u>P 17,808</u>	<u>P 26,037</u>

Parent Bank

	2020			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Balance at January 1	P 46	P 269	P 2,136	P 2,451
Transfers to:				
Stage 1	(2)	-	2	-
Stage 2	1	(2)	1	-
Stage 3	5	1	(6)	-
Net remeasurement of loss allowance	(3)	(249)	647	395
New financial assets originated or purchased	36	10	523	569
Derecognition of financial assets	(20)	(10)	(645)	(675)
Write-offs	-	-	(452)	(452)
Foreign exchange	(1)	-	(2)	(3)
Balance at December 31	<u>P 62</u>	<u>P 19</u>	<u>P 2,204</u>	<u>P 2,285</u>
Debt investment securities at amortized cost				
Balance at January 1	P 141	P -	P 1,402	P 1,543
Net remeasurement of loss allowance	85	-	-	85
New financial assets originated or purchased	35	-	-	35
Foreign exchange	(8)	-	(60)	(68)
Derecognition of financial assets	(24)	-	-	(24)
Balance at December 31	<u>P 229</u>	<u>P -</u>	<u>P 1,342</u>	<u>P 1,571</u>
Debt investment securities at FVOCI				
Balance at January 1	P 72	P -	P -	P 72
Net remeasurement of loss allowance	34	-	-	34
New financial assets originated or purchased	20	-	-	20
Derecognition of financial assets	(18)	-	-	(18)
Balance at December 31	<u>P 108</u>	<u>P -</u>	<u>P -</u>	<u>P 108</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 114	P -	P -	P 114
Net remeasurement of loss allowance	21	1	-	22
New financial assets originated or purchased	220	2	-	222
Derecognition of financial assets	(39)	-	-	(39)
Foreign exchange	(2)	-	-	(2)
Balance at December 31	<u>P 314</u>	<u>P 3</u>	<u>P -</u>	<u>P 317</u>

The following table sets out a reconciliation of changes in the total loss allowance.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Balance at January 1	P 60,895	P 34,433	P 58,270	P 31,562
Net remeasurement of loss allowance	14,163	25,558	14,025	24,807
New financial assets originated or purchased	11,418	10,473	10,874	9,572
Derecognition of financial assets	(8,508)	(6,287)	(7,996)	(4,512)
Write-offs	(8,966)	(2,949)	(8,351)	(2,827)
Foreign exchange	551	(333)	551	(332)
Balance at December 31	<u>P 69,553</u>	<u>P 60,895</u>	<u>P 67,373</u>	<u>P 58,270</u>

(j) Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below and in the succeeding pages provide information how the significant changes in the gross carrying amount of financial instruments in 2021 and 2020 contributed to the changes in the allowance for ECL.

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,557,696	P 163,212	P 15,030	P 1,735,938
Transfers to:				
Stage 1	13,931	(13,930)	(1)	-
Stage 2	(1,875)	1,930	(55)	-
Stage 3	(471)	(552)	1,023	-
New financial assets originated or purchased	1,306,861	5,575	5,714	1,318,150
Derecognition of financial assets	(1,142,186)	(39,866)	(1,425)	(1,183,477)
Write-offs	-	-	(1,256)	(1,256)
Balance at December 31	<u>P 1,733,956</u>	<u>P 116,369</u>	<u>P 19,030</u>	<u>P 1,869,355</u>
Receivables from customers – consumer				
Balance at January 1	P 475,090	P 7,149	P 45,525	P 527,764
Transfers to:				
Stage 1	10,022	(3,144)	(6,878)	-
Stage 2	(2,097)	2,465	(368)	-
Stage 3	(22,686)	(2,207)	24,893	-
New financial assets originated or purchased	131,086	293	3,877	135,256
Derecognition of financial assets	(117,659)	(1,513)	(5,435)	(124,607)
Write-offs	-	-	(7,575)	(7,575)
Balance at December 31	<u>P 473,756</u>	<u>P 3,043</u>	<u>P 54,039</u>	<u>P 530,838</u>
Other receivables				
Balance at January 1	P 94,023	P 451	P 2,656	P 97,130
Transfers to:				
Stage 1	71	(14)	(57)	-
Stage 2	(10)	13	(3)	-
Stage 3	(85)	(3)	88	-
New financial assets originated or purchased	25,808	168	1,076	27,052
Derecognition of financial assets	(4,498)	(145)	(951)	(5,594)
Write-offs	-	-	(135)	(135)
Balance at December 31	<u>P 115,309</u>	<u>P 470</u>	<u>P 2,674</u>	<u>P 118,453</u>
Debt investment securities at amortized cost				
Balance at January 1	P 287,067	P -	P 1,342	P 288,409
Amortization	(1,202)	-	-	(1,202)
New financial assets originated or purchased	166,073	-	-	166,073
Foreign exchange	9,068	-	68	9,136
Derecognition of financial assets	(63,411)	-	-	(63,411)
Balance at December 31	<u>P 397,595</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 399,005</u>
Debt investment securities at FVOCI				
Balance at January 1	P 174,559	P -	P -	P 174,559
Amortization	(483)	-	-	(483)
Fair value gain	(5,576)	-	-	(5,576)
New financial assets originated or purchased	474,062	-	-	474,062
Foreign Exchange	4,986	-	-	4,986
Derecognition of financial assets	(482,087)	-	-	(482,087)
Balance at December 31	<u>P 165,461</u>	<u>P -</u>	<u>P -</u>	<u>P 165,461</u>

BDO Unibank Group

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments and other contingent accounts				
Balance at January 1	P 96,509	P 145	P 16	P 96,670
Transfers to:				
Stage 1	48	(48)	-	-
New financial assets originated or purchased	54,277	451	-	54,728
Derecognition of financial assets	(38,431)	(45)	(16)	(38,492)
Balance at December 31	<u>P 112,403</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,906</u>
	2020			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,675,381	P 7,980	P 10,647	P 1,694,008
Transfers to:				
Stage 1	2,363	(2,363)	-	-
Stage 2	(133,928)	133,932	(4)	-
Stage 3	(3,221)	(784)	4,005	-
New financial assets originated or purchased	793,998	25,413	4,004	823,415
Derecognition of financial assets	(776,897)	(966)	(3,622)	(781,485)
Balance at December 31	<u>P 1,557,696</u>	<u>P 163,212</u>	<u>P 15,030</u>	<u>P 1,735,938</u>
Receivables from customers – consumer				
Balance at January 1	P 496,344	P 3,029	P 14,669	P 514,042
Transfers to:				
Stage 1	8,845	(10,117)	1,272	-
Stage 2	(3,695)	3,890	(195)	-
Stage 3	(25,136)	(2,764)	27,900	-
New financial assets originated or purchased	455,090	14,188	9,518	478,796
Derecognition of financial assets	(456,358)	(1,077)	(5,142)	(462,577)
Write-offs	-	-	(2,497)	(2,497)
Balance at December 31	<u>P 475,090</u>	<u>P 7,149</u>	<u>P 45,525</u>	<u>P 527,764</u>
Other receivables				
Balance at January 1	P 47,185	P 325	P 2,883	P 50,393
Transfers to:				
Stage 1	(28)	16	12	-
Stage 2	(2)	-	2	-
Stage 3	18	(22)	4	-
New financial assets originated or purchased	103,346	300	820	104,466
Derecognition of financial assets	(56,496)	(168)	(613)	(57,277)
Write-offs	-	-	(452)	(452)
Balance at December 31	<u>P 94,023</u>	<u>P 451</u>	<u>P 2,656</u>	<u>P 97,130</u>
Debt investment securities at amortized cost				
Balance at January 1	P 263,736	P -	P 1,402	P 265,138
Amortization	2,605	-	-	2,605
New financial assets originated or purchased	102,273	-	-	102,273
Foreign exchange	(7,576)	-	(60)	(7,636)
Derecognition of financial assets	(73,971)	-	-	(73,971)
Balance at December 31	<u>P 287,067</u>	<u>P -</u>	<u>P 1,342</u>	<u>P 288,409</u>

BDO Unibank Group

	2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at FVOCI				
Balance at January 1	P 134,123	P -	P -	P 134,123
Amortization	336	-	-	336
Fair value gain	4,069	-	-	4,069
New financial assets originated or purchased	193,217	-	-	193,217
Foreign Exchange	(4,362)	-	-	(4,362)
Derecognition of financial assets	(152,824)	-	-	(152,824)
Balance at December 31	<u>P 174,559</u>	<u>P -</u>	<u>P -</u>	<u>P 174,559</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 457,736	P 1	P 44	P 457,781
Transfers to Stage 2	(25)	25	-	-
New financial assets originated or purchased	65,525	119	-	65,644
Derecognition of financial assets	(426,727)	-	(28)	(426,755)
Balance at December 31	<u>P 96,509</u>	<u>P 145</u>	<u>P 16</u>	<u>P 96,670</u>

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,554,068	P 163,030	P 15,027	P 1,732,125
Transfers to:				
Stage 1	13,707	(13,707)	-	-
Stage 2	(1,868)	1,922	(54)	-
Stage 3	(470)	(550)	1,020	-
New financial assets originated or purchased	1,301,391	5,535	5,713	1,312,639
Derecognition of financial assets	(1,138,790)	(39,866)	(1,424)	(1,180,080)
Write-offs	-	-	(1,256)	(1,256)
Balance at December 31	<u>P 1,728,038</u>	<u>P 116,364</u>	<u>P 19,026</u>	<u>P 1,863,428</u>
Receivables from customers – consumer				
Balance at January 1	P 446,247	P 4,590	P 41,533	P 492,370
Transfers to:				
Stage 1	7,056	(1,318)	(5,738)	-
Stage 2	(1,887)	2,227	(340)	-
Stage 3	(21,190)	(1,908)	23,098	-
New financial assets originated or purchased	99,753	145	482	100,380
Derecognition of financial assets	(91,258)	(993)	(5,409)	(97,660)
Write-offs	-	-	(6,967)	(6,967)
Balance at December 31	<u>P 438,721</u>	<u>P 2,743</u>	<u>P 46,659</u>	<u>P 488,123</u>
Other receivables				
Balance at January 1	P 88,556	P 413	P 2,496	P 91,465
Transfers to:				
Stage 1	71	(14)	(57)	-
Stage 2	(10)	13	(3)	-
Stage 3	(73)	(2)	75	-
New financial assets originated or purchased	23,597	135	843	24,575
Derecognition of financial assets	(841)	(139)	(908)	(1,888)
Write-offs	-	-	(128)	(128)
Balance at December 31	<u>P 111,300</u>	<u>P 406</u>	<u>P 2,318</u>	<u>P 114,024</u>

Parent Bank

	2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost				
Balance at January 1	P 267,901	P -	P 1,342	P 269,243
Amortization	(1,186)	-	-	(1,186)
New financial assets originated or purchased	157,763	-	-	157,763
Foreign exchange	8,746	-	68	8,814
Derecognition of financial assets	(55,797)	-	-	(55,797)
Balance at December 31	<u>P 377,427</u>	<u>P -</u>	<u>P 1,410</u>	<u>P 378,837</u>
Debt investment securities at FVOCI				
Balance at January 1	P 121,848	P -	P -	P 121,848
Amortization	(334)	-	-	(334)
Fair value gain	(2,861)	-	-	(2,861)
New financial assets originated or purchased	445,300	-	-	445,300
Foreign exchange	4,249	-	-	4,249
Derecognition of financial assets	(454,107)	-	-	(454,107)
Balance at December 31	<u>P 114,095</u>	<u>P -</u>	<u>P -</u>	<u>P 114,095</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 96,509	P 145	P 16	P 96,670
Transfers to Stage 2	48	(48)	-	-
New financial assets originated or purchased	54,277	451	-	54,728
Derecognition of financial assets	(38,431)	(45)	(16)	(38,492)
Balance at December 31	<u>P 112,403</u>	<u>P 503</u>	<u>P -</u>	<u>P 112,906</u>
2020				
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 1,660,571	P 7,433	P 9,536	P 1,677,540
Transfers to:				
Stage 1	1,919	(1,919)	-	-
Stage 2	(133,669)	133,669	-	-
Stage 3	(1,444)	(524)	1,968	-
New financial assets originated or purchased	791,337	25,150	4,057	820,544
Derecognition of financial assets	(764,646)	(779)	(534)	(765,959)
Balance at December 31	<u>P 1,554,068</u>	<u>P 163,030</u>	<u>P 15,027</u>	<u>P 1,732,125</u>
Receivables from customers – consumer				
Balance at January 1	P 465,938	P 2,262	P 12,126	P 480,326
Transfers to:				
Stage 1	(5,608)	(354)	5,962	-
Stage 2	(3,159)	3,208	(49)	-
Stage 3	(24,457)	(1,464)	25,921	-
New financial assets originated or purchased	456,539	1,308	3,875	461,722
Derecognition of financial assets	(443,006)	(370)	(3,927)	(447,303)
Write-offs	-	-	(2,375)	(2,375)
Balance at December 31	<u>P 446,247</u>	<u>P 4,590</u>	<u>P 41,533</u>	<u>P 492,370</u>
Other receivables				
Balance at January 1	P 45,128	P 324	P 2,170	P 47,622
Transfers to:				
Stage 1	(147)	17	130	-
Stage 2	9	(17)	8	-
Stage 3	19	-	(19)	-
New financial assets originated or purchased	89,424	300	1,227	90,951
Derecognition of financial assets	(45,877)	(211)	(568)	(46,656)
Write-offs	-	-	(452)	(452)
Balance at December 31	<u>P 88,556</u>	<u>P 413</u>	<u>P 2,496</u>	<u>P 91,465</u>

Parent Bank

	2020			
	Stage 1	Stage 2	Stage 3	Total
Debt investment securities at amortized cost				
Balance at January 1	P 247,449	P -	P 1,402	P 248,851
Amortization	2,608	-	-	2,608
New financial assets originated or purchased	96,702	-	-	96,702
Foreign exchange	(7,254)	-	(60)	(7,314)
Derecognition of financial assets	(71,604)	-	-	(71,604)
Balance at December 31	<u>P 267,901</u>	<u>P -</u>	<u>P 1,342</u>	<u>P 269,243</u>
Debt investment securities at FVOCI				
Balance at January 1	P 89,431	P -	P -	P 89,431
Amortization	(27)	-	-	(27)
Fair value gain	2,381	-	-	2,381
New financial assets originated or purchased	160,325	-	-	160,325
Foreign exchange	(3,414)	-	-	(3,414)
Derecognition of financial assets	(126,848)	-	-	(126,848)
Balance at December 31	<u>P 121,848</u>	<u>P -</u>	<u>P -</u>	<u>P 121,848</u>
Loan commitments and other contingent accounts				
Balance at January 1	P 457,736	P 1	P 44	P 457,781
Transfers to Stage 2	(25)	25	-	-
New financial assets originated or purchased	65,525	119	-	65,644
Derecognition of financial assets	(426,727)	-	(28)	(426,755)
Balance at December 31	<u>P 96,509</u>	<u>P 145</u>	<u>P 16</u>	<u>P 96,670</u>

(k) Sensitivity Analysis on ECL Measurement

Set out below are the changes to the BDO Unibank Group's 12-month ECL as of December 31, 2021 and 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the BDO Unibank Group's economic variable assumptions.

	Change in MEVs		Impact on ECL	
	Increase	Decrease	Increase in MEV	Decrease in MEV
2021				
Corporate or Commercial Loans:				
GDP growth rate	+1%	-1%	-6.8%	6.8%
Inflation rate	+1%	-1%	2.1%	-2.6%
Credit Card Receivables or Personal Loans:				
GDP growth rate	+1%	-1%	-1.4%	1.4%
Unemployment rate	+1%	-1%	1.1%	-1.1%
Home/Housing Loans:				
GDP growth rate	+1%	-1%	-0.6%	0.6%
Inflation rate	+1%	-1%	0.1%	-0.1%
Auto Loans:				
GDP growth rate	+1%	-1%	-0.5%	0.5%
Unemployment rate	+1%	-1%	3.7%	-3.7%

	Change in MEVs		Impact on ECL	
	Increase	Decrease	Increase in MEV	Decrease in MEV
<u>2020</u>				
Corporate or Commercial Loans:				
GDP growth rate	+1%	-1%	-1.7%	1.7%
Inflation rate	+1%	-1%	0.1%	-0.1%
Credit Card Receivables or Personal Loans:				
GDP growth rate	+1%	-1%	-5.0%	5.0%
Unemployment rate	+1%	-1%	0.2%	-0.2%
Home/Housing Loans:				
GDP growth rate	+1%	-1%	-3.0%	3.0%
Unemployment rate	+1%	-1%	2.0%	-2.0%
Inflation rate	+1%	-1%	0.2%	-0.2%
Auto Loans:				
GDP growth rate	+1%	-1%	-0.5%	0.5%
Unemployment rate	+1%	-1%	3.0%	-3.0%

4.4 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of operational risk in BDO Unibank Group.

The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations.

The BDO Unibank Group continues to conduct periodic Risk and Control Self-Assessment (RCSA) so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the BDO Unibank Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

The BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of top KRIs to the BOD through the RMC is done quarterly.

The BDO Unibank Group likewise uses Loss Data Collection, Analysis and Reporting that allows the BDO Unibank Group to gather data per Basel loss event category across business lines. The collected data are processed for information and appropriate escalation, root cause analysis, control effectiveness and enables action plans to prevent recurrence.

These ORM tools are continually being reviewed and enhanced to proactively manage operational risks. The Operational Risk Management Solution (ORMS) was implemented to automate the reporting of BDO Unibank Group's RCSAs, KRIs and operational losses. The bank-wide information asset inventory is regularly reviewed to address operational risks arising from information security concerns. The inventory identified critical applications and sensitive data based on the BDO Unibank Group's classification standards, information risks, as well as protection measures in place to mitigate these risks. Under the purview of information security is data privacy. The BDO Unibank Group's data privacy framework is in accordance with the R.A. No. 10173, *Data Privacy Act of 2012*.

Information technology risks which include current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's Day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

The BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

4.5 Anti-Money Laundering Controls

The Anti-Money Laundering (AML) Program of the BDO Unibank Group and the Parent Bank is articulated in the Board-approved Money Laundering and Terrorist Financing Prevention Program (MTPP) Manual. The MTPP encapsulates the policies and procedures covering the: (i) on-boarding of clients, Know Your Client and required due diligence; (ii) customer risk assessment; (iii) on-going monitoring of transactions; (iv) regulatory reporting; (v) record-keeping; (vi) training of all officers and staff including BOD; (vii) Independent Compliance Testing (ICT); and (viii) Institutional Risk Assessment.

The MTTP provides the framework for the BDO Unibank Group and the Parent Bank to adhere with the AML and Counter-Terrorism Financing Laws and Regulations:

1. R.A. No. 9160: *The Anti-Money Laundering Act of 2001* (AMLA) as amended by R.A. No 9194 (2003); R.A. 10167 (2012); R.A. 10365 (2013); R.A. No. 10927 (2017) and R.A. No. 11521 (2021); together with applicable Implementing Rules and Regulations (IRR)
2. BSP Circular No. 706 (2011), as amended by BSP Circular No. 950 (2017); and BSP Circular No. 1022 (2018)
3. R.A. 10168: *The Terrorism Financing Prevention and Suppression Act of 2012* and its IRR; R.A. 10697 *Strategic Trade Management Act (2015)* and its IRR; and the R.A. 11479 *Anti-Terrorism Act (2020)*

The Chief Compliance Officer directly reports to the BOD through the Board Audit Committee and is also a member of the AML Committee of the Parent Bank. The AML Committee, composed of senior officers from various units, is tasked to oversee the operational implementation of BDO's AML/CTF Program.

4.6 Impact of LIBOR Reform

As disclosed in Note 2.2(a), the BDO Unibank Group currently has exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols.

In 2020, the Parent Bank established a steering committee, consisting of key finance, risk, information technology, treasury, legal and compliance personnel and external advisors, to oversee the BDO Unibank Group LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at December 31, 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by LIBOR reform have not yet been proposed or agreed. The BDO Unibank Group has identified that the areas of most significant risk arising from the replacement of LIBOR are: (i) updating systems and processes which capture LIBOR referenced contracts; (ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and, (iii) reviewing mismatches in timing of derivatives and loans transitioning from LIBOR and the resulting impact on economic risk management.

The BDO Unibank Group continues to engage with industry participants and the BSP to ensure an orderly transition to SOFR and minimize the risks arising from the transition. The BDO Unibank Group continues to identify and assess risks associated with USD LIBOR replacement.

The following table contains details of all of the financial instruments that the BDO Unibank Group and the Parent Bank hold at December 31, 2021 for each LIBOR rate that have not yet transitioned to SOFR or an alternative interest rate benchmark as of December 31, 2021:

		<u>Carrying value</u>		<u>Notional amount</u>
<u>BDO Unibank Group</u>				
USD LIBOR	P	353,525	P	366,610
GBP LIBOR		2,959		3,226
EUR LIBOR		1,218		460
JPY LIBOR		<u>135</u>		<u>47</u>
	P	<u>357,837</u>	P	<u>370,343</u>
<u>Parent Bank</u>				
USD LIBOR	P	352,347	P	309,088
GBP LIBOR		2,959		3,226
EUR LIBOR		1,218		460
JPY LIBOR		<u>135</u>		<u>46</u>
	P	<u>356,659</u>	P	<u>312,820</u>

The breakdown of the financial instruments between non-derivative financial assets and liabilities and derivative instruments are as follows:

		<u>Carrying value</u>		<u>Notional amount</u>
<u>BDO Unibank Group</u>				
Non-derivative financial assets –				
Loans and other receivables	P	158,669	P	-
Non-derivative financial liabilities –				
Bills payable		41,534		-
Other liabilities		9,282		-
Derivatives:				
With positive fair values		6,223		183,012
With negative fair values	(	<u>5,629</u>)		<u>187,331</u>
	P	<u>210,079</u>	P	<u>370,343</u>

		<u>Carrying value</u>		<u>Notional amount</u>
<u>Parent Bank</u>				
Non-derivative financial assets –				
Loans and other receivables	P	157,976	P	-
Non-derivative financial liabilities –				
Bills payable		41,534		-
Other liabilities		9,282		-
Derivatives:				
With positive fair values		2,430		154,973
With negative fair values	(	<u>2,321)</u>		<u>157,847</u>
	P	<u>208,901</u>	P	<u>312,820</u>

The following are the key risks for the BDO Unibank Group arising from the transition.

- **Liquidity risk:** There are fundamental differences between LIBOR and the various alternative benchmark rates which the BDO Unibank Group will be adopting. LIBOR are forward-looking term rates published for a period (e.g., three months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The BDO Unibank Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.
- **Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g., arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The BDO Unibank Group is working closely with all counterparties to avoid this from occurring.
- **Operational risk:** The BDO Unibank Group's current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The BDO Unibank Group is working closely with its system provider to ensure the relevant updates are made in good time and the BDO Unibank Group has alternative manual procedures in place with relevant controls to address any potential delay.

5. CAPITAL MANAGEMENT

5.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital 2021 Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 effectively extending the implementation of ICAAP from January 1, 2010 to January 1, 2011.

In October 2009, BDO Unibank Group presented its ICAAP and submitted the initial draft of its ICAAP document to the BSP. Based on comments from the BSP, BDO Unibank Group subsequently revised its ICAAP document and secured approval from its BOD on January 8, 2011. Annually as required, BDO Unibank Group submits its updated ICAAP to the BSP.

The ICAAP document articulates BDO Unibank Group's capital planning strategy and discusses governance, risk assessment, capital assessment and planning, capital adequacy monitoring and reporting, as well as internal control reviews.

The lead regulator of the banking industry, the BSP, sets and monitors capital requirements for BDO Unibank Group. In implementing current capital requirements, the BSP requires BDO Unibank Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which was amended on January 1, 2019, which requires BDO Unibank Group to maintain:

- (a) Common Equity Tier 1 (CET 1) of at least 6.0% of risk-weighted assets;
- (b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
- (c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets;
- (d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET 1 Capital; and,
- (e) Countercyclical Capital Buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%.

The regulatory capital is analyzed as CET 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of 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 as determined by the Monetary Board of the BSP.

BDO Unibank Group's policy is to maintain a strong capital base to promote investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Under BSP Circular No. 781, universal banks with more than 100 branches are required to comply with the minimum capital requirement of P20 billion. As of December 31, 2021 and 2020, the Parent Bank has complied with the above capitalization requirement.

BSP issued Circular No. 856 on the guidelines on the framework for dealing with domestic systemically important banks (DSIB) that is consistent with the Basel principles, as amended by BSP Circular No. 1051 dated September 27, 2019. Banks, which are identified as DSIB, shall be required to have a higher loss absorbency (HLA) depending on their computed systemic importance. The HLA requirement is aimed at ensuring that DSIBs have a higher share of their statements of financial position funded by instruments, which increase their resilience as a going concern. The HLA requirement is to be met with CET 1 capital.

Under BSP Circular No. 1051, banks identified by the BSP as DSIB are required to put up lower HLA to be met CET 1 capital ranging from 1.50% to 2.50%, effective October 12, 2019.

BSP Circular No. 1024 requires banks to put up a CCyB, which is set initially at 0%, composed of CET 1. CCyB may be subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. This took effect on December 21, 2018.

BDO Unibank Group and the Parent Bank's regulatory capital position (computed using balances prepared under PFRS) based on the Basel 3 risk-based capital adequacy framework as of December 31, 2021 and 2020 as follows:

	BDO	
	<u>Unibank Group</u>	<u>Parent Bank</u>
<u>December 31, 2021</u>		
Tier 1 Capital		
CET 1	P 403,388	P 404,134
Additional Tier 1	<u>5,150</u>	<u>5,150</u>
	408,538	409,284
Tier 2 Capital	<u>25,209</u>	<u>24,265</u>
Total Regulatory Capital	433,747	433,549
Deductions	<u>(35,097)</u>	<u>(61,769)</u>
Total Qualifying Capital	<u>P 398,650</u>	<u>P 371,780</u>
Total Risk-Weighted Assets	<u>P 2,714,820</u>	<u>P 2,617,747</u>
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	14.7%	14.2%
Tier 1 Capital Ratio	13.8%	13.3%
Total CET 1 Ratio	13.6%	13.1%

	BDO			Parent Bank	
	<u>Unibank Group</u>			<u>Parent Bank</u>	
<u>December 31, 2020</u>					
Tier 1 Capital					
CET 1	P	373,342	P	374,032	
Additional Tier 1		<u>5,150</u>		<u>5,150</u>	
		378,492		379,182	
Tier 2 Capital		<u>23,947</u>		<u>23,248</u>	
Total Regulatory Capital		402,439		402,430	
Deductions	(	<u>31,803)</u>	(	<u>58,626)</u>	
Total Qualifying Capital	<u>P</u>	<u>370,636</u>	<u>P</u>	<u>343,804</u>	
Total Risk-Weighted Assets	<u>P</u>	<u>2,579,533</u>	<u>P</u>	<u>2,492,540</u>	
Capital ratios:					
Total qualifying capital expressed as a percentage of total risk weighted assets		14.4%		13.8%	
Tier 1 Capital Ratio		13.4%		12.9%	
Total CET 1 Ratio		13.2%		12.7%	

At the end of each reporting period, the BDO Unibank Group and the Parent Bank have complied with the prescribed ratio of qualifying capital to risk-weighted assets.

5.2 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet, derivatives and securities financing transactions exposures and off-balance sheet items.

The BDO Unibank Group and the Parent Bank's Basel III leverage ratio as reported to the BSP are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>			
<u>Capital Measure</u>	10.3%	10.2%	10.0%
Exposure Measure			
<u>Parent Bank</u>			
<u>Capital Measure</u>	9.9%	9.8%	9.6%
Exposure Measure			

5.3 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. Circular No. 905 requires the BDO Unibank Group to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day period under stress conditions. The BDO Unibank Group has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the BDO Unibank Group's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The BDO Unibank Group's and the Parent Bank's LCR as of December 31, 2021, 2020, and 2019 is analyzed below.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>			
<u>Total Stock of High – Quality Liquid Assets</u>	145.4%	127.1%	108.4%
Total Net Cash Outflows			
<u>Parent Bank</u>			
<u>Total Stock of High – Quality Liquid Assets</u>	145.9%	129.0%	109.2%
Total Net Cash Outflows			

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular No. 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the BDO Unibank Group's liquidity profile.

The BDO Unibank Group has fully complied with the NSFR minimum requirement of 100% coverage effective January 1, 2019.

To promote long-term resilience against liquidity risk, the BDO Unibank Group maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The BDO Unibank Group and the Parent Bank's Basel III NSFR as of December 31, 2021, 2020 and 2019 are summarized below.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>			
<u>Available Stable Funding</u>	123.5%	122.0%	116.7%
Required Stable Funding			
<u>Parent Bank</u>			
<u>Available Stable Funding</u>	123.1%	122.0%	117.4%
Required Stable Funding			

6. SEGMENT REPORTING

6.1 Business Segments

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's five service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined as Others.

- (a) **Commercial banking** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;
- (b) **Investment banking** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, financial advisory services, and securities brokerage;
- (c) **Private banking** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts;
- (d) **Leasing and financing** – provides direct leases, sale and leaseback arrangements and real estate leases;
- (e) **Insurance** – engages in insurance brokerage and life insurance business by providing protection, education, savings, retirement and estate planning solutions to individual and corporate clients through life insurance products and services; and,
- (f) **Others** – includes remittance and realty management, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

6.2 Analysis of Segment Information

Segment information (by service lines) as of and for the years ended December 31, 2021, 2020 and 2019 are as follows:

	Commercial Banking	Investment Banking	Private Banking	Leasing and Financing	Insurance	Others	Total
December 31, 2021							
Revenues							
From external customer							
Interest income	P 140,997	P 7	P 1,108	P 632	P 2,133	P 2	P 144,879
Interest expense	(13,166)	(1)	(70)	(229)	(66)	(1)	(13,533)
Net interest income	<u>127,831</u>	<u>6</u>	<u>1,038</u>	<u>403</u>	<u>2,067</u>	<u>1</u>	<u>131,346</u>
Intersegment revenue							
Interest income	119	2	-	-	3	1	125
Interest expense	(16)	(45)	(4)	(28)	(11)	(65)	(169)
Net interest income	<u>103</u>	<u>(43)</u>	<u>(4)</u>	<u>(28)</u>	<u>(8)</u>	<u>(64)</u>	<u>(44)</u>
Other operating income							
Investment banking fees	-	2,268	-	-	-	-	2,268
Others	<u>42,725</u>	<u>277</u>	<u>1,451</u>	<u>809</u>	<u>20,412</u>	<u>543</u>	<u>66,217</u>
	<u>42,725</u>	<u>2,545</u>	<u>1,451</u>	<u>809</u>	<u>20,412</u>	<u>543</u>	<u>68,485</u>
Total net revenues	<u>170,659</u>	<u>2,508</u>	<u>2,485</u>	<u>1,184</u>	<u>22,471</u>	<u>480</u>	<u>199,787</u>
Expenses							
Other operating expenses							
Depreciation and amortization	8,424	85	72	531	137	85	9,334
Impairment losses	17,066	55	(20)	(20)	(18)	-	17,063
Others	<u>90,521</u>	<u>772</u>	<u>1,204</u>	<u>385</u>	<u>19,005</u>	<u>291</u>	<u>112,178</u>
	<u>116,011</u>	<u>912</u>	<u>1,256</u>	<u>896</u>	<u>19,124</u>	<u>376</u>	<u>138,575</u>
Segment operating income	54,648	1,596	1,229	288	3,347	104	61,212
Tax expense	<u>11,584</u>	<u>375</u>	<u>264</u>	<u>43</u>	<u>623</u>	<u>18</u>	<u>12,907</u>
Segment net income	<u>P 43,064</u>	<u>P 1,221</u>	<u>P 965</u>	<u>P 245</u>	<u>P 2,724</u>	<u>P 86</u>	<u>P 48,305</u>
Statement of Financial Position							
Total resources							
Segment assets	P 3,506,708	P 6,736	P 37,937	P 15,208	P 82,976	P 4,320	P 3,653,885
Deferred tax assets (liabilities) - net	6,843	(154)	15	16	53	(5)	6,768
Intangible assets	<u>7,194</u>	<u>76</u>	<u>21</u>	<u>-</u>	<u>44</u>	<u>1</u>	<u>7,336</u>
	<u>P 3,520,745</u>	<u>P 6,658</u>	<u>P 37,973</u>	<u>P 15,224</u>	<u>P 83,073</u>	<u>P 4,316</u>	<u>P 3,667,989</u>
Total liabilities	<u>P 3,091,065</u>	<u>P 2,455</u>	<u>P 31,905</u>	<u>P 8,072</u>	<u>P 71,798</u>	<u>P 2,212</u>	<u>P 3,207,507</u>
Other segment information							
Capital expenditures	<u>P 5,020</u>	<u>P 26</u>	<u>P 23</u>	<u>P 239</u>	<u>P 3,564</u>	<u>P 2</u>	<u>P 8,874</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,347</u>	<u>P 5,347</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 814</u>	<u>P 814</u>

	<u>Commercial Banking</u>	<u>Investment Banking</u>	<u>Private Banking</u>	<u>Leasing and Financing</u>	<u>Insurance</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2020</u>							
Revenues							
From external customer							
Interest income	P 152,691	P 18	P 1,196	P 1,237	P 1,883	P 6	P 157,031
Interest expense	(22,536)	(3)	(196)	(502)	(86)	(8)	(23,331)
Net interest income	<u>130,155</u>	<u>15</u>	<u>1,000</u>	<u>735</u>	<u>1,797</u>	<u>(2)</u>	<u>133,700</u>
Intersegment revenue							
Interest income	238	9	-	2	13	1	263
Interest expense	(35)	(73)	(6)	(95)	(8)	(80)	(297)
Net interest income	<u>203</u>	<u>(64)</u>	<u>(6)</u>	<u>(93)</u>	<u>5</u>	<u>(79)</u>	<u>(34)</u>
Other operating income							
Investment banking fees	-	1,410	-	-	-	-	1,410
Others	38,683	285	1,552	1,478	16,440	551	58,989
	<u>38,683</u>	<u>1,695</u>	<u>1,552</u>	<u>1,478</u>	<u>16,440</u>	<u>551</u>	<u>60,399</u>
Total net revenues	<u>169,041</u>	<u>1,646</u>	<u>2,546</u>	<u>2,120</u>	<u>18,242</u>	<u>470</u>	<u>194,065</u>
Expenses							
Other operating expenses							
Depreciation and amortization	8,289	105	71	677	101	91	9,334
Impairment losses	29,714	19	9	444	54	-	30,240
Others	85,849	817	1,168	549	16,059	290	104,732
	<u>123,852</u>	<u>941</u>	<u>1,248</u>	<u>1,670</u>	<u>16,214</u>	<u>381</u>	<u>144,306</u>
Segment operating income	45,189	705	1,298	450	2,028	89	49,759
Tax expense	16,462	262	291	171	571	19	17,776
Segment net income	<u>P 28,727</u>	<u>P 443</u>	<u>P 1,007</u>	<u>P 279</u>	<u>P 1,457</u>	<u>P 70</u>	<u>P 31,983</u>
Statement of Financial Position							
Total resources							
Segment assets	P 3,262,339	P 6,522	P 41,408	P 16,223	P 70,354	P 4,388	P 3,401,234
Deferred tax assets (liabilities) - net	8,023	(166)	8	6	42	(2)	7,911
Intangible assets	5,677	114	17	2	47	-	5,857
	<u>P 3,276,039</u>	<u>P 6,470</u>	<u>P 41,433</u>	<u>P 16,231</u>	<u>P 70,443</u>	<u>P 4,386</u>	<u>P 3,415,002</u>
Total liabilities	<u>P 2,877,836</u>	<u>P 2,579</u>	<u>P 35,288</u>	<u>P 9,268</u>	<u>P 64,499</u>	<u>P 2,191</u>	<u>P 2,991,661</u>
Other segment information							
Capital expenditures	<u>P 4,019</u>	<u>P 12</u>	<u>P 10</u>	<u>P 314</u>	<u>P 24</u>	<u>P 4</u>	<u>P 4,383</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,015</u>	<u>P 5,015</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 470</u>	<u>P 470</u>

	<u>Commercial Banking</u>	<u>Investment Banking</u>	<u>Private Banking</u>	<u>Leasing and Financing</u>	<u>Insurance</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2019</u>							
Revenues							
From external customer							
Interest income	P 155,463	P 26	P 1,466	P 1,976	P 1,632	P 9	P 160,572
Interest expense	(38,659)	1	(643)	(1,289)	(89)	(2)	(40,681)
Net interest income	<u>116,804</u>	<u>27</u>	<u>823</u>	<u>687</u>	<u>1,543</u>	<u>7</u>	<u>119,891</u>
Intersegment revenues							
Interest income	231	41	-	-	38	43	353
Interest expense	(91)	(73)	(27)	(101)	(6)	(84)	(382)
Net interest income	<u>140</u>	<u>(32)</u>	<u>(27)</u>	<u>(101)</u>	<u>32</u>	<u>(41)</u>	<u>(29)</u>
Other operating income							
Investment banking fees	-	1,371	-	-	-	-	1,371
Others	<u>44,684</u>	<u>405</u>	<u>1,662</u>	<u>1,054</u>	<u>17,079</u>	<u>587</u>	<u>65,471</u>
	<u>44,684</u>	<u>1,776</u>	<u>1,662</u>	<u>1,054</u>	<u>17,079</u>	<u>587</u>	<u>66,842</u>
Total net revenues	<u>161,628</u>	<u>1,771</u>	<u>2,458</u>	<u>1,640</u>	<u>18,654</u>	<u>553</u>	<u>186,704</u>
Expenses							
Other operating expenses							
Depreciation and amortization	7,841	107	66	794	87	85	8,980
Impairment losses	6,005	68	28	63	5	-	6,167
Others	<u>89,885</u>	<u>833</u>	<u>1,259</u>	<u>702</u>	<u>13,908</u>	<u>349</u>	<u>106,936</u>
	<u>103,729</u>	<u>1,008</u>	<u>1,353</u>	<u>1,559</u>	<u>14,000</u>	<u>434</u>	<u>122,083</u>
Segment operating income	57,899	763	1,105	81	4,654	119	64,621
Tax expense	<u>13,496</u>	<u>256</u>	<u>226</u>	<u>34</u>	<u>967</u>	<u>40</u>	<u>15,019</u>
Segment net income	<u>P 44,403</u>	<u>P 507</u>	<u>P 879</u>	<u>P 47</u>	<u>P 3,687</u>	<u>P 79</u>	<u>P 49,602</u>
Statement of Financial Position							
Total resources							
Segment assets	P 3,081,358	P 7,175	P 34,857	P 30,806	P 58,302	P 5,329	P 3,217,827
Deferred tax assets	8,878	(154)	24	133	48	(2)	8,927
(liabilities) - net	5,400	139	18	2	55	1	5,615
Intangible assets	<u>P 3,095,636</u>	<u>P 7,160</u>	<u>P 34,899</u>	<u>P 30,941</u>	<u>P 58,405</u>	<u>P 5,328</u>	<u>P 3,232,369</u>
Total liabilities	<u>P 2,720,385</u>	<u>P 2,963</u>	<u>P 29,083</u>	<u>P 25,327</u>	<u>P 48,549</u>	<u>P 2,184</u>	<u>P 2,828,491</u>
Other segment information							
Capital expenditures	<u>P 6,332</u>	<u>P 22</u>	<u>P 18</u>	<u>P 533</u>	<u>P 76</u>	<u>P 14</u>	<u>P 6,995</u>
Investment in associates under equity method	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 5,048</u>	<u>P 5,048</u>
Share in the profit of associates	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>(P 42)</u>	<u>P -</u>	<u>P 738</u>	<u>P 696</u>

6.3 Reconciliation

Presented below is a reconciliation of the BDO Unibank Group's segment information to the key financial information presented in its consolidated financial statements.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenue			
Total segment net revenues	P 199,787	P 194,065	P 186,704
Elimination of intersegment revenues	(7,087)	(5,155)	(6,702)
Net revenues as reported in profit or loss	<u>P 192,700</u>	<u>P 188,910</u>	<u>P 180,002</u>
Profit or loss			
Total segment net income	P 48,305	P 31,983	P 49,602
Elimination of intersegment profit	(5,450)	(3,729)	(5,434)
Net profit as reported in profit or loss	<u>P 42,855</u>	<u>P 28,254</u>	<u>P 44,168</u>
Resources			
Total segment resources	P 3,667,989	P 3,415,002	P 3,232,369
Elimination of intersegment assets	(44,240)	(40,102)	(43,511)
Total resources	<u>P 3,623,749</u>	<u>P 3,374,900</u>	<u>P 3,188,858</u>
Liabilities			
Total segment liabilities	P 3,207,507	P 2,991,661	P 2,828,491
Elimination of intersegment liabilities	(8,306)	(2,782)	(10,220)
Total liabilities	<u>P 3,199,201</u>	<u>P 2,988,879</u>	<u>P 2,818,271</u>

7. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below and in the succeeding pages.

BDO Unibank Group

	2021			
	<u>Classes</u>		<u>Carrying</u>	<u>Fair</u>
	<u>At Amortized</u>	<u>At Fair</u>		
	<u>Cost</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Financial assets				
At amortized cost:				
Cash and other cash items	P 69,105	P -	P 69,105	P 69,105
Due from BSP	304,906	-	304,906	304,907
Due from other banks	70,092	-	70,092	70,092
Loans and other receivables	2,450,903	-	2,450,903	2,460,214
Other resources	7,460	-	7,460	7,460
Investment securities	397,534	-	397,534	399,761
Financial assets at FVTPL	-	47,934	47,934	47,934
Financial assets at FVOCI	-	170,793	170,793	170,793
	<u>P 3,300,000</u>	<u>P 218,727</u>	<u>P 3,518,727</u>	<u>P 3,530,266</u>
Financial liabilities				
At amortized cost:				
Deposit liabilities	P 2,820,896	P -	P 2,820,896	P 2,861,596
Bills payable	204,431	-	204,431	206,988
Insurance contract liabilities	65,328	-	65,328	65,328
Other liabilities	91,875	-	91,875	91,875
At fair value –				
Other liabilities	-	5,742	5,742	5,742
	<u>P 3,182,530</u>	<u>P 5,742</u>	<u>P 3,188,272</u>	<u>P 3,231,529</u>

BDO Unibank Group

		2020			
		Classes			
		At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets					
At amortized cost:					
Cash and other cash items	P	74,851	P -	P 74,851	P 74,851
Due from BSP		308,636	-	308,636	308,627
Due from other banks		65,289	-	65,289	65,289
Loans and other receivables		2,301,981	-	2,301,981	2,306,593
Other resources		9,262	-	9,262	9,262
Investment securities at		286,819	-	286,819	300,168
Financial assets at FVTPL		-	37,110	37,110	37,110
Financial assets at FVOCI		-	184,881	184,881	184,881
		<u>P 3,046,838</u>	<u>P 221,991</u>	<u>P 3,268,829</u>	<u>P 3,286,781</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,610,151	P -	P 2,610,151	P 2,653,290
Bills payable		209,744	-	209,744	213,381
Insurance contract liabilities		58,410	-	58,410	58,410
Other liabilities		89,611	-	89,611	89,611
At fair value -					
Other liabilities		-	4,129	4,129	4,129
		<u>P 2,967,916</u>	<u>P 4,129</u>	<u>P 2,972,045</u>	<u>P 3,018,821</u>

Parent Bank

		2021			
		Classes			
		At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial assets					
At amortized cost:					
Cash and other cash items	P	66,440	P -	P 66,440	P 66,440
Due from BSP		302,660	-	302,660	302,661
Due from other banks		64,349	-	64,349	64,349
Loans and other receivables		2,399,983	-	2,399,983	2,412,229
Other resources		6,752	-	6,752	6,752
Investment securities		377,382	-	377,382	379,266
Financial assets at FVTPL		-	4,616	4,616	4,616
Financial assets at FVOCI		-	115,965	115,965	115,965
		<u>P 3,217,566</u>	<u>P 120,581</u>	<u>P 3,338,147</u>	<u>P 3,352,278</u>

Parent Bank

		2021			
		<u>Classes</u>		<u>Carrying Amount</u>	<u>Fair Value</u>
		<u>At Amortized Cost</u>	<u>At Fair Value</u>		
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,751,715	P -	P 2,751,715	P 2,787,683
Bills payable		196,174	-	196,174	198,756
Other liabilities		82,917	-	82,917	82,917
At fair value –					
Other liabilities		<u>-</u>	<u>2,462</u>	<u>2,462</u>	<u>2,462</u>
	P	<u>3,030,806</u>	P <u>2,462</u>	P <u>3,033,268</u>	P <u>3,071,818</u>
		2020			
		<u>Classes</u>		<u>Carrying Amount</u>	<u>Fair Value</u>
		<u>At Amortized Cost</u>	<u>At Fair Value</u>		
Financial assets					
At amortized cost:					
Cash and other cash items	P	72,301	P -	P 72,301	P 72,301
Due from BSP		305,079	-	305,079	305,069
Due from other banks		63,281	-	63,281	63,281
Loans and other receivables		2,259,686	-	2,259,686	2,266,579
Other resources		8,834	-	8,834	8,834
Investment securities		267,672	-	267,672	283,067
Financial assets at FVTPL		-	4,862	4,862	4,862
Financial assets at FVOCI		<u>-</u>	<u>126,922</u>	<u>126,922</u>	<u>126,922</u>
	P	<u>2,976,853</u>	P <u>131,784</u>	P <u>3,108,637</u>	P <u>3,130,915</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities	P	2,548,291	P -	P 2,548,291	P 2,587,223
Bills payable		202,867	-	202,867	208,284
Other liabilities		81,914	-	81,914	81,914
At fair value –					
Other liabilities		<u>-</u>	<u>2,001</u>	<u>2,001</u>	<u>2,001</u>
	P	<u>2,833,072</u>	P <u>2,001</u>	P <u>2,835,073</u>	P <u>2,879,422</u>

7.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When BDO Unibank Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

7.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities as of December 31, 2021 and 2020 are grouped into the fair value hierarchy as presented in the tables below and in the succeeding pages.

Unquoted equity securities consist of preferred and common shares of various unlisted local companies.

BDO Unibank Group

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Equity securities - quoted		P 28,752	P 2,844	P -	P 31,596
Government debt securities		5,427	-	-	5,427
Corporate debt securities		1,086	3,593	-	4,679
Derivative financial assets		-	6,232	-	6,232
		<u>35,265</u>	<u>12,669</u>	<u>-</u>	<u>47,934</u>
Financial assets at FVOCI:	10.2				
Government debt securities		110,182	-	-	110,182
Corporate debt securities		55,279	-	-	55,279
Equity securities - quoted		4,722	288	-	5,010
Equity securities - not quoted		-	-	322	322
		<u>170,183</u>	<u>288</u>	<u>322</u>	<u>170,793</u>
		<u>P 205,448</u>	<u>P 12,957</u>	<u>P 322</u>	<u>P 218,727</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 91</u>	<u>P 5,651</u>	<u>P -</u>	<u>P 5,742</u>
<u>December 31, 2020</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Equity securities - quoted		P 21,641	P 1,821	P -	P 23,462
Government debt securities		5,401	-	-	5,401
Corporate debt securities		834	2,945	-	3,779
Derivative financial assets		-	4,468	-	4,468
		<u>27,876</u>	<u>9,234</u>	<u>-</u>	<u>37,110</u>
Financial assets at FVOCI:	10.2				
Government debt securities		117,663	-	-	117,663
Corporate debt securities		56,896	-	-	56,896
Equity securities - quoted		9,829	234	-	10,063
Equity securities - not quoted		-	-	259	259
		<u>184,388</u>	<u>234</u>	<u>259</u>	<u>184,881</u>
		<u>P 212,264</u>	<u>P 9,468</u>	<u>P 259</u>	<u>P 221,991</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 82</u>	<u>P 4,047</u>	<u>P -</u>	<u>P 4,129</u>

Parent Bank

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Government debt securities		P 1,919	P -	P -	P 1,919
Derivative financial assets		-	2,469	-	2,469
Corporate debt securities		227	-	-	227
Equity securities - quoted		<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
		<u>2,147</u>	<u>2,469</u>	<u>-</u>	<u>4,616</u>
Financial assets at FVOCI:	10.2				
Government debt securities		71,798	-	-	71,798
Corporate debt securities		42,297	-	-	42,297
Equity securities - quoted		1,306	282	-	1,588
Equity securities - not quoted		-	-	282	282
		<u>115,401</u>	<u>282</u>	<u>282</u>	<u>115,965</u>
		<u>P 117,548</u>	<u>P 2,751</u>	<u>P 282</u>	<u>P 120,581</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 91</u>	<u>P 2,371</u>	<u>P -</u>	<u>P 2,462</u>
<u>December 31, 2020</u>					
Resources:					
Financial assets at FVTPL:	10.1				
Government debt securities		P 2,793	P -	P -	P 2,793
Derivative financial assets		-	1,769	-	1,769
Corporate debt securities		299	-	-	299
Equity securities - quoted		<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
		<u>3,093</u>	<u>1,769</u>	<u>-</u>	<u>4,862</u>
Financial assets at FVOCI:	10.2				
Government debt securities		80,464	-	-	80,464
Corporate debt securities		41,384	-	-	41,384
Equity securities - quoted		4,626	229	-	4,855
Equity securities - not quoted		-	-	219	219
		<u>126,474</u>	<u>229</u>	<u>219</u>	<u>126,922</u>
		<u>P 129,567</u>	<u>P 1,998</u>	<u>P 219</u>	<u>P 131,784</u>
Liabilities –					
Derivatives with negative fair values	21	<u>P 82</u>	<u>P 1,919</u>	<u>P -</u>	<u>P 2,001</u>

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Discussed below and in the succeeding page is the information about how fair values of the BDO Unibank Group and the Parent Bank's classes of financial assets are determined.

(a) Equity securities

- (i) Quoted equity securities classified as financial assets at FVTPL or financial assets at FVOCI have fair values that were determined based on their closing prices on the PSE. These instruments are included in Level 1.

Financial assets at FVTPL included in Level 2 pertain to investments in Unit Investment Trust Funds (UITFs). The fair value of these financial assets were derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines.

Golf club shares classified as financial assets at FVOCI are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

- (ii) Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies. For unquoted preferred shares, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values. Further, unlisted common share which are classified as financial assets at FVOCI securities, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. These instruments are included in Level 3.

(b) Debt securities

The fair value of the debt securities of BDO Unibank Group and the Parent Bank, which are categorized within Level 1 and Level 2, is discussed below.

- (i) Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.
- (ii) For corporate and other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(c) Derivatives

The fair values of Republic of the Philippines (ROP) warrants which are categorized within Level 1, is determined to be the current mid-price based on the last trading transaction as defined by third-party market makers. The fair value of other derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2(c)].

7.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding pages summarizes the fair value hierarchy of BDO Unibank Group and Parent Bank's financial assets and financial liabilities, which are measured at amortized cost in the statements of financial position but for which fair value is disclosed.

BDO Unibank Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
Resources:				
Cash and other cash items	P 69,105	P -	P -	P 69,105
Due from BSP	304,907	-	-	304,907
Due from other banks	70,092	-	-	70,092
Investment securities at amortized cost	399,761	-	-	399,761
Loans and other receivables	271	-	2,459,943	2,460,214
Other resources	<u>6,180</u>	<u>-</u>	<u>1,280</u>	<u>7,460</u>
	<u>P 850,316</u>	<u>P -</u>	<u>P 2,461,223</u>	<u>P 3,311,539</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,861,596	P 2,861,596
Bills payable	-	152,235	54,753	206,988
Insurance contract liabilities	-	-	65,328	65,328
Other liabilities	<u>-</u>	<u>-</u>	<u>91,875</u>	<u>91,875</u>
	<u>P -</u>	<u>P 152,235</u>	<u>P 3,073,552</u>	<u>P 3,225,787</u>
<u>December 31, 2020</u>				
Resources:				
Cash and other cash items	P 74,851	P -	P -	P 74,851
Due from BSP	308,627	-	-	308,627
Due from other banks	65,289	-	-	65,289
Investment securities at amortized cost	300,168	-	-	300,168
Loans and other receivable	239	-	2,306,354	2,306,593
Other resources	<u>8,795</u>	<u>-</u>	<u>467</u>	<u>9,262</u>
	<u>P 757,969</u>	<u>P -</u>	<u>P 2,306,821</u>	<u>P 3,064,790</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,653,290	P 2,653,290
Bills payable	-	164,748	48,633	213,381
Insurance contract liabilities	-	-	58,410	58,410
Other liabilities	<u>-</u>	<u>-</u>	<u>89,611</u>	<u>89,611</u>
	<u>P -</u>	<u>P 164,748</u>	<u>P 2,849,944</u>	<u>P 3,014,692</u>

Parent Bank

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
Resources:				
Cash and other cash items	P 66,440	P -	P -	P 66,440
Due from BSP	302,661	-	-	302,661
Due from other banks	64,349	-	-	64,349
Investment securities at amortized cost	379,266	-	-	379,266
Loans and other receivables	-	-	2,412,229	2,412,229
Other resources	<u>5,784</u>	<u>-</u>	<u>968</u>	<u>6,752</u>
	<u>P 818,500</u>	<u>P -</u>	<u>P 2,413,197</u>	<u>P 3,231,697</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,787,683	P 2,787,683
Bills payable	-	152,235	46,521	198,756
Other liabilities	<u>-</u>	<u>-</u>	<u>82,917</u>	<u>82,917</u>
	<u>P -</u>	<u>P 152,235</u>	<u>P 2,917,121</u>	<u>P 3,069,356</u>
<u>December 31, 2020</u>				
Resources:				
Cash and other cash items	P 72,301	P -	P -	P 72,301
Due from BSP	305,069	-	-	305,069
Due from other banks	63,281	-	-	63,281
Investment securities at amortized cost	283,067	-	-	283,067
Loans and other receivables	-	-	2,266,579	2,266,579
Other resources	<u>8,756</u>	<u>-</u>	<u>78</u>	<u>8,834</u>
	<u>P 732,474</u>	<u>P -</u>	<u>P 2,266,657</u>	<u>P 2,999,131</u>
Liabilities:				
Deposit liabilities	P -	P -	P 2,587,223	P 2,587,223
Bills payable	-	164,748	43,536	208,284
Other liabilities	<u>-</u>	<u>-</u>	<u>81,914</u>	<u>81,914</u>
	<u>P -</u>	<u>P 164,748</u>	<u>P 2,712,673</u>	<u>P 2,877,421</u>

For financial assets and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial assets and financial liabilities presented in the statements of financial position at their amortized cost.

(a) *Cash and Other Cash Items*

Cash consists primarily of funds in the form of Philippine currency notes and coins in the BDO Unibank Group and the Parent Bank's vault and those in the possession of tellers, including automated teller machines (see Note 8).

Other cash items includes cash items other than currency and coins on hand (see Note 15) such as checks drawn on the other banks or other branches that were received after the BDO Unibank Group and the Parent Bank's clearing cut-off time until the close of the regular banking hours. Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

(b) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(c) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost is determined by direct reference to published price quoted in an active market for traded debt securities.

(d) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(e) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of Bills Payable under Level 2 is computed based on the average of ask and bid prices as appearing on Bloomberg. For Bills Payable categorized within Level 3, the BDO Unibank Group and the Parent Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(f) *Other Resources and Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.5 Fair Value Measurement for Non-financial Assets

Details of BDO Unibank Group and Parent Bank's investment properties and the information about the fair value hierarchy as of December 31, 2021 and 2020 are shown below.

BDO Unibank Group

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
Investment properties				
Land	P -	P -	P 27,349	P 27,349
Building and improvements	-	-	12,786	12,786
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>1,825</u>	<u>1,825</u>
	<u><u>P -</u></u>	<u><u>P -</u></u>	<u><u>P 41,960</u></u>	<u><u>P 41,960</u></u>
<u>December 31, 2020</u>				
Investment properties				
Land	P -	P -	P 20,482	P 20,482
Building and improvements	-	-	12,674	12,674
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>1,039</u>	<u>1,039</u>
	<u><u>P -</u></u>	<u><u>P -</u></u>	<u><u>P 34,195</u></u>	<u><u>P 34,195</u></u>

Parent Bank

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
Investment properties				
Land	P -	P -	P 20,819	P 20,819
Building and improvements	-	-	11,917	11,917
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>1,824</u>	<u>1,824</u>
	<u><u>P -</u></u>	<u><u>P -</u></u>	<u><u>P 34,560</u></u>	<u><u>P 34,560</u></u>
<u>December 31, 2020</u>				
Investment properties				
Land	P -	P -	P 18,802	P 18,802
Building and improvements	-	-	12,145	12,145
Non-current assets held for sale	<u>-</u>	<u>-</u>	<u>1,039</u>	<u>1,039</u>
	<u><u>P -</u></u>	<u><u>P -</u></u>	<u><u>P 31,986</u></u>	<u><u>P 31,986</u></u>

The fair value of the investment properties of the BDO Unibank Group and the Parent Bank as of December 31, 2021 and 2020 (see Note 14) was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the BDO Unibank Group and the Parent Bank with respect to determination of the inputs such as size, age and condition of the land and buildings and the comparable prices in the corresponding property location.

In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the BDO Unibank Group and the Parent Bank indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the BDO Unibank Group and the Parent Bank in determining the fair value of investment properties and non-current assets held for sale.

The fair value of these investment properties and assets held for sale was determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

(b) *Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings and improvements was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the BDO Unibank Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2021 and 2020.

(c) *Fair Value Measurement for Assets Held for Sale*

The fair value of assets held for sale is determined based on the recent experience in the valuation of similar properties. The fair value, determined under Level 3 measurement, was derived using the market data approach that reflects that recent transaction prices for similar properties, adjusted for differences in property age and condition.

There has been no change to the valuation techniques used by BDO Unibank Group during the year for its non-financial assets. Further, there were no transfers into or out of Level 3 fair value hierarchy in 2021 and 2020.

7.6 Offsetting Financial Assets and Financial Liabilities

The following financial assets of the BDO Unibank Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2021 and 2020 are subject to offsetting, enforceable master netting arrangements and similar agreements.

BDO Unibank Group

	<u>Financial Assets</u>	<u>Financial Liabilities Available for Set-off</u>	<u>Collateral Received</u>	<u>Net Amount</u>
<u>December 31, 2021</u>				
Financial assets at FVTPL:				
Currency swaps	P 617	P 572	P -	P 45
Interest rate swaps	64	59	-	5
Loans and receivables –				
Receivables from customers	<u>29,497</u>	<u>-</u>	<u>26,216</u>	<u>3,281</u>
	<u>P 30,178</u>	<u>P 631</u>	<u>P 26,216</u>	<u>P 3,331</u>
<u>December 31, 2020</u>				
Financial assets at FVTPL:				
Currency swaps	P 396	P 371	P -	P 25
Interest rate swaps	116	102	-	14
Loans and receivables –				
Receivables from customers	<u>43,976</u>	<u>-</u>	<u>40,904</u>	<u>3,072</u>
	<u>P 44,488</u>	<u>P 473</u>	<u>P 40,904</u>	<u>P 3,111</u>

Parent Bank

December 31, 2021

Financial assets at FVTPL:				
Currency swaps	P 5	P 5	P -	P -
Interest rate swaps	54	53	-	1
Loans and receivables –				
Receivables from customers	<u>26,045</u>	<u>-</u>	<u>26,045</u>	<u>-</u>
	<u>P 26,104</u>	<u>P 58</u>	<u>P 26,045</u>	<u>P 1</u>

Parent Bank

	<u>Financial Assets</u>		<u>Financial Liabilities Available for Set-off</u>		<u>Collateral Received</u>		<u>Net Amount</u>	
<u>December 31, 2020</u>								
Financial assets at FVTPL:								
Currency swaps	P	1	P	1	P	-	P	-
Interest rate swaps		104		95		-		9
Loans and receivables –								
Receivables from customers		<u>40,744</u>		<u>-</u>		<u>40,744</u>		<u>-</u>
	P	<u>40,849</u>	P	<u>96</u>	P	<u>40,744</u>	P	<u>9</u>

The currency forwards and interest rate swaps relate to accrued interest receivable and accrued interest payable subject to enforceable master netting arrangements but were not set-off and presented at gross in the statements of financial position.

The following financial liabilities with net amounts presented in the statements of financial position of the BDO Unibank Group and the Parent Bank are subject to offsetting, enforceable master netting arrangements and similar agreements.

BDO Unibank Group

		<u>Financial Liabilities</u>		<u>Financial Assets Available for Set-off</u>		<u>Collateral Given</u>		<u>Net Amount</u>
<u>December 31, 2021</u>								
Deposit liabilities	P	32,393	P	26,216	P	-	P	6,177
Bills payable		1,088		-		1,088		-
Derivatives with negative fair values:								
Currency swaps		629		572		-		57
Interest rate swaps		<u>72</u>		<u>59</u>		<u>-</u>		<u>13</u>
	P	<u>34,182</u>	P	<u>26,847</u>	P	<u>1,088</u>	P	<u>6,247</u>
<u>December 31, 2020</u>								
Deposit liabilities	P	85,836	P	40,904	P	-	P	44,932
Derivatives with negative fair values:								
Currency swaps		648		371		-		277
Interest rate swaps		<u>102</u>		<u>102</u>		<u>-</u>		<u>-</u>
	P	<u>88,257</u>	P	<u>43,482</u>	P	<u>-</u>	P	<u>44,775</u>

Parent Bank

	<u>Financial Liabilities</u>	<u>Financial Assets Available for Set-off</u>	<u>Collateral Given</u>	<u>Net Amount</u>
<u>December 31, 2021</u>				
Deposit liabilities	P 32,222	P 26,045	P -	P 6,177
Derivatives with negative fair values:				
Currency swaps	62	5	-	57
Interest rate swaps	<u>66</u>	<u>53</u>	<u>-</u>	<u>13</u>
	<u>P 32,350</u>	<u>P 26,103</u>	<u>P -</u>	<u>P 6,247</u>
<u>December 31, 2020</u>				
Deposit liabilities	P 85,676	P 40,744	P -	P 44,932
Derivatives with negative fair values:				
Currency swaps	278	1	-	277
Interest rate swaps	<u>95</u>	<u>95</u>	<u>-</u>	<u>-</u>
	<u>P 86,049</u>	<u>P 40,840</u>	<u>P -</u>	<u>P 45,209</u>

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the BDO Unibank Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

8. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cash and other cash items	<u>P 69,105</u>	<u>P 74,851</u>	<u>P 66,440</u>	<u>P 72,301</u>
Due from BSP:				
Mandatory reserves	271,953	254,527	269,707	252,440
Other than mandatory reserves	<u>32,953</u>	<u>54,109</u>	<u>32,953</u>	<u>52,639</u>
	<u>304,906</u>	<u>308,636</u>	<u>302,660</u>	<u>305,079</u>
	<u>P 374,011</u>	<u>P 383,487</u>	<u>P 369,100</u>	<u>P 377,380</u>

Mandatory reserves represent the balance of the deposit accounts maintained with the BSP to meet reserve requirements and to serve as clearing accounts for interbank claims (see Note 17).

The Parent Bank opened a Special Savings Account (SSA) with the BSP to comply with InstaPay facility requirement.

As of December 31, 2021 and 2020, the balance of this account amounted to P770 and P461 and is presented as part of Due from BSP.

Due from BSP, excluding mandatory reserves which has no interest, bears annual interest rate as follows:

<u>2021</u>	<u>2020</u>	<u>2019</u>
1.50% – 1.96%	1.50% – 4.13%	0.00% – 4.75%

The total interest income earned amounted to P1,487, P1,892 and P422 in 2021, 2020 and 2019, respectively, in BDO Unibank Group's statements of income, and P1,483, P1,886 and P417 in 2021, 2020 and 2019, respectively, in the Parent Bank's statements of income (see Note 23).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

9. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Foreign banks	P 66,185	P 64,156	P 63,193	P 62,615
Local banks	<u>3,907</u>	<u>1,133</u>	<u>1,156</u>	<u>666</u>
	<u>P 70,092</u>	<u>P 65,289</u>	<u>P 64,349</u>	<u>P 63,281</u>

The breakdown of this account as to currency follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
U.S. dollars	P 57,669	P 56,867	P 54,480	P 55,707
Other foreign currencies	10,732	8,010	9,708	7,308
Philippine pesos	<u>1,691</u>	<u>412</u>	<u>161</u>	<u>266</u>
	<u>P 70,092</u>	<u>P 65,289</u>	<u>P 64,349</u>	<u>P 63,281</u>

Annual interest rates on these deposits range from:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
BDO Unibank Group	0.00% – 1.50%	0.00% – 3.38%	0.00% – 5.75%
Parent Bank	0.00% – 1.00%	0.00% – 1.00%	0.00% – 2.00%

There are deposits such as current accounts, which do not earn interest. The total interest income earned amounted to P67, P266 and P959 in 2021, 2020, and 2019, respectively, in the BDO Unibank Group's statements of income, and P50, P234 and P817, in 2021, 2020, and 2019, respectively, in the Parent Bank's statements of income (see Note 23). Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

10. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	<u>Note</u>	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Financial assets at FVTPL	10.1	P 47,934	P 37,110	P 4,616	P 4,862
Financial assets at FVOCI	10.2	170,793	184,881	115,965	126,922
Investment securities at amortized cost - net	10.3	<u>397,534</u>	<u>286,819</u>	<u>377,382</u>	<u>267,672</u>
		<u>P 616,261</u>	<u>P 508,810</u>	<u>P 497,963</u>	<u>P 399,456</u>

10.1 Financial Assets at FVTPL

This account is composed of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Derivative financial assets	P 6,232	P 4,468	P 2,469	P 1,769
Government debt securities	5,427	5,401	1,919	2,793
Corporate debt securities	<u>4,679</u>	<u>3,779</u>	<u>227</u>	<u>299</u>
	16,338	13,648	4,615	4,861
Equity securities - quoted	<u>31,596</u>	<u>23,462</u>	<u>1</u>	<u>1</u>
	<u>P 47,934</u>	<u>P 37,110</u>	<u>P 4,616</u>	<u>P 4,862</u>

All financial assets at FVTPL are held for trading. The following table shows net income (loss) contributed by financial assets at FVTPL to the BDO Unibank Group and the Parent Bank.

	Notes	BDO Unibank Group		
		2021	2020	2019
Interest income	23	P 92	P 122	P 197
Trading gain (loss) - net	25	(214)	1,261	1,606
Dividend income	25	118	71	72
Foreign exchange gain (loss)	25	71	(214)	(449)
Total other income (loss)		(25)	1,118	1,229
Total other expenses		1	2	7
Net income		P 66	P 1,238	P 1,419

	Notes	Parent Bank		
		2021	2020	2019
Interest income	23	P 59	P 84	P 87
Trading gain (loss) - net	25	(648)	1,422	267
Net income (loss)		(P 589)	P 1,506	P 354

Effective interest rates of debt securities at FVTPL of both the BDO Unibank Group and the Parent Bank range from:

	2021	2020	2019
Government debt securities	0.88% – 10.63%	0.63% – 10.63%	0.88% – 12.13%
Corporate debt securities	0.09% – 8.51%	0.09% – 8.51%	0.09% – 8.51%

Foreign currency-denominated securities amounted to P6,622 and P5,701 as of December 31, 2021 and 2020, respectively, in the BDO Unibank Group's statements of financial position, and P2,759 and P3,037 as of December 31, 2021 and 2020, respectively, in the Parent Bank's statements of financial position.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase or sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another. Income derived from these derivative instruments are part of trading gains/(losses) (see Note 25).

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and financial liabilities are shown below [see Notes 21 and 27(d)(i)(4)].

	2021			2020		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
BDO Unibank Group						
Currency forwards/futures	P 313,246	P 2,091	P 2,118	P 277,684	P 1,377	P 1,517
Gross currency swaps	54,243	4,041	3,440	44,738	2,882	2,395
Interest rate swaps	13,986	99	93	15,912	209	135
Interest rate future sold trading	1,661	1	-	240	-	1
ROP warrants	8,475	-	91	8,475	-	81
	<u>P 391,611</u>	<u>P 6,232</u>	<u>P 5,742</u>	<u>P 347,049</u>	<u>P 4,468</u>	<u>P 4,129</u>
Parent Bank						
Currency forwards/futures	P 309,373	P 2,086	P 2,045	P 272,794	P 1,216	P 1,437
Gross currency swaps	8,792	329	259	8,663	449	388
Interest rate swaps	8,986	54	66	8,508	104	95
ROP warrants	8,475	-	92	8,475	-	81
	<u>P 335,626</u>	<u>P 2,469</u>	<u>P 2,462</u>	<u>P 298,440</u>	<u>P 1,769</u>	<u>P 2,001</u>

Certain financial assets at FVTPL of the BDO Unibank Group and the Parent Bank amounting to P681 and P59, respectively, in 2021 and P513 and P105, respectively, in 2020, are subject to offsetting against the related derivatives with negative fair values of the BDO Unibank Group and the Parent Bank amounting to P702 and P129, respectively, in 2021 and P750 and P373, respectively, in 2020. This indicates an enforceable master netting arrangements and similar agreements with an intention to settle on a net basis (see Note 7.6).

10.2 Financial Assets at FVOCI

The details of the carrying amounts of these financial assets are as follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Government debt securities	P 110,182	P 117,663	P 71,798	P 80,464
Corporate debt securities	55,279	56,896	42,297	41,384
Equity securities:				
Quoted	5,010	10,063	1,588	4,855
Not quoted	322	259	282	219
	<u>P 170,793</u>	<u>P 184,881</u>	<u>P 115,965</u>	<u>P 126,922</u>

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Foreign currencies	P 86,804	P 88,748	P 74,197	P 71,907
Philippine peso	83,989	96,133	41,768	55,015
	<u>P 170,793</u>	<u>P 184,881</u>	<u>P 115,965</u>	<u>P 126,922</u>

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Within one year	P 17,781	P 61,715	P 13,743	P 48,069
One to five years	64,349	69,895	46,361	49,716
Beyond five years	88,663	53,271	55,861	29,137
	<u>P 170,793</u>	<u>P 184,881</u>	<u>P 115,965</u>	<u>P 126,922</u>

Effective interest rates of financial assets at FVOCI range from:

	2021	2020	2019
BDO Unibank Group			
Government debt securities	1.65% – 12.13%	0.00% – 12.13%	1.75% – 12.13%
Corporate debt securities	2.13% – 8.25%	2.13% – 8.50%	2.38% – 9.00%
Parent Bank			
Government debt securities	1.65% – 10.63%	2.63% – 10.63%	2.63% – 10.63%
Corporate debt securities	2.13% – 7.38%	2.13% – 8.50%	2.38% – 9.00%

The fair values of government debt, quoted equity and corporate debt securities have been determined directly by reference to published prices generated in an active market except for unquoted equity securities (see Note 7.3).

The reconciliation of the carrying amounts of financial assets at FVOCI is as follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Balance at beginning of year	P 184,881	P 145,239	P 126,922	P 93,800
Additions	476,166	197,175	446,867	162,827
Disposals	(489,677)	(158,897)	(459,326)	(129,554)
Unrealized fair value gains (losses)	(5,230)	4,647	(2,524)	3,250
Foreign currency revaluation	4,945	(4,349)	4,210	(3,402)
Realized of fair value gains (losses) on FVOCI	(309)	1,062	(201)	1
Reclassification	28	-	28	-
Deferred tax liability	(11)	4	(11)	-
Balance at end of year	<u>P 170,793</u>	<u>P 184,881</u>	<u>P 115,965</u>	<u>P 126,922</u>

The reconciliation of unrealized fair value losses on financial assets at FVOCI reported under equity is shown below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 4,008	(P 1,741)	P 2,459	(P 828)
Changes on unrealized fair value gains (losses) during the year:				
Fair value gains (losses) during the year	(5,230)	4,647	(2,524)	3,250
Expected credit losses on FVOCI securities	(88)	37	(71)	36
Deferred tax liability	(11)	3	(11)	-
	<u>(1,321)</u>	<u>2,946</u>	<u>(147)</u>	<u>2,458</u>
Realized fair value (gains) loss on securities disposed during the year - net	(309)	1,062	(201)	1
Balance at end of year	<u>(P 1,630)</u>	<u>P 4,008</u>	<u>(P 348)</u>	<u>P 2,459c</u>

The Parent Bank disposed FVOCI securities under equity amounting to P3,222 and P323 in 2021 and 2020, respectively, while the BDO Unibank Group disposed a total of FVOCI equity securities amounting to P5,454 and P3,877 in 2021 and 2020, respectively.

Unrealized fair value gains and losses recognized in the NUGL account is not reclassified to profit or loss but is reclassified directly to Surplus Free account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Impairment losses (recovery) recognized for FVOCI debt securities presented in NUGL for BDO Unibank Group and the Parent Bank amounted to (P88) and (P71), respectively, in 2021, P37 and P36, respectively, in 2020 and P13 and P5, respectively, in 2019. Total accumulated impairment losses presented in NUGL for the BDO Unibank Group and the Parent Bank amounted to P50 and P37, respectively, as of December 31, 2021, and P137 and P108, respectively, as of December 31, 2020 (see Note 4.3.5).

10.3 Investment Securities at Amortized Cost

This account consists of:

	Note	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Government debt securities		P 334,935	P 228,134	P 320,925	P 214,471
Corporate debt securities:					
Quoted		59,255	55,982	56,523	53,430
Not quoted		<u>4,815</u>	<u>4,293</u>	<u>1,389</u>	<u>1,342</u>
		<u>399,005</u>	<u>288,409</u>	<u>378,837</u>	<u>269,243</u>
Allowance for impairment	16	(1,471)	(1,590)	(1,455)	(1,571)
		<u>P 397,534</u>	<u>P 286,819</u>	<u>P 377,382</u>	<u>P 267,672</u>

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Foreign currencies	P 164,529	P 153,492	P 159,235	P 146,757
Philippine peso	<u>233,005</u>	<u>133,327</u>	<u>218,147</u>	<u>120,915</u>
	<u>P 397,534</u>	<u>P 286,819</u>	<u>P 377,382</u>	<u>P 267,672</u>

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Less than one year	P 29,285	P 40,119	P 27,101	P 34,075
One to five years	166,980	170,135	155,595	162,185
Beyond five years	<u>201,269</u>	<u>76,565</u>	<u>194,686</u>	<u>71,412</u>
	<u>P 397,534</u>	<u>P 286,819</u>	<u>P 377,382</u>	<u>P 267,672</u>

The reconciliation of the carrying amounts of investment securities at amortized cost is as follows:

	BDO Unibank Group		Parent Bank	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 286,819	P 263,585	P 267,672	P 247,308
Additions	169,502	116,777	161,191	111,208
Maturities and disposals	(68,042)	(85,870)	(60,412)	(83,501)
Foreign currency gains - net	9,063	(7,568)	8,741	(7,247)
Impairment loss	192	(105)	190	(96)
Balance at end of year	<u>P 397,534</u>	<u>P 286,819</u>	<u>P 377,382</u>	<u>P 267,672</u>

Effective interest rates of investment securities at amortized cost for both BDO Unibank Group and Parent Bank range from:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
BDO Unibank Group			
Government debt securities	0.18% – 18.25%	0.00% – 18.25%	0.18% – 18.25%
Corporate debt securities	2.13% – 8.41%	0.00% – 9.50%	2.38% – 9.50%
Parent Bank			
Government debt securities	0.18% – 18.25%	0.18% – 18.25%	0.18% – 18.25%
Corporate debt securities	2.13% – 7.88%	0.00% – 9.50%	2.38% – 9.50%

The BDO Unibank Group and the Parent Bank disposed of certain debt securities from its amortized cost portfolio amounting to P1,565 and P285, respectively, resulting in a trading net gain amounting to P78 and P30 in 2021, while in 2020, P29,637 was disposed resulting in a net trading gain amounting to P3,546, for both the BDO Unibank Group and the Parent Bank. The disposal in 2021 was initiated because of the deteriorating credit profile of the securities sold, while in 2020, the disposal was made to strengthen the liquidity and capital position of the BDO Unibank Group and the Parent Bank as a buffer against the economic downturn caused by the COVID-19 pandemic. Management had assessed that such disposals of the investment securities are consistent with the BDO Unibank Group's and the Parent Bank's investment at amortized cost business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the BDO Unibank Group's business model in managing financial assets manual and the requirements of PFRS 9. The disposal of investment securities was approved by the Investments Committee in compliance with the documentation requirements of the BSP.

As mentioned in Note 28, certain government debt securities are deposited with the BSP.

11. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2021	2020	2021	2020
Receivables from customers:					
Loans and discounts	27	P 2,205,151	P 2,099,887	P 2,156,282	P 2,060,614
Credit card receivables		106,789	94,356	106,789	94,356
Customers' liabilities under letters of credit and trust receipts		80,217	58,784	80,217	58,784
Bills purchased		8,360	10,864	8,358	10,863
		<u>2,400,517</u>	<u>2,263,891</u>	<u>2,351,646</u>	<u>2,224,617</u>
Unearned interests or discounts		(324)	(189)	(95)	(122)
Allowance for impairment	16	(65,259)	(56,420)	(63,274)	(53,989)
		<u>(65,583)</u>	<u>(56,609)</u>	<u>(63,369)</u>	<u>(54,111)</u>
		<u>2,334,934</u>	<u>2,207,282</u>	<u>2,288,277</u>	<u>2,170,506</u>
Other receivables:					
Interbank loans receivables		90,721	66,657	90,721	66,657
Reverse repurchase agreements		17,095	16,729	15,800	14,135
Accounts receivable	27	8,315	11,527	6,277	9,696
Sales contract receivables		1,283	1,016	1,226	977
Others		1,039	1,201	-	-
		<u>118,453</u>	<u>97,130</u>	<u>114,024</u>	<u>91,465</u>
Allowance for impairment	16	(2,484)	(2,431)	(2,318)	(2,285)
		<u>115,969</u>	<u>94,699</u>	<u>111,706</u>	<u>89,180</u>
		<u>P 2,450,903</u>	<u>P 2,301,981</u>	<u>P 2,399,983</u>	<u>P 2,259,686</u>

The maturity profile of receivable from customers (net of unearned interest or discounts) based on the remaining term is presented below.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Less than one year	P 715,409	P 715,170	P 708,816	P 706,757
One to five years	830,392	752,265	795,591	727,527
Beyond five years	<u>854,392</u>	<u>796,267</u>	<u>847,144</u>	<u>790,211</u>
	<u>P 2,400,193</u>	<u>P 2,263,702</u>	<u>P 2,351,551</u>	<u>P 2,224,495</u>

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to type of interest rate follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Variable interest rates	P 1,885,493	P 1,813,886	P 1,873,116	P 1,804,381
Fixed interest rates	<u>514,700</u>	<u>449,816</u>	<u>478,435</u>	<u>420,114</u>
	<u>P 2,400,193</u>	<u>P 2,263,702</u>	<u>P 2,351,551</u>	<u>P 2,224,495</u>

Annual interest rates ranges from:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Loans and discounts	0.00% – 60.96%	0.00% – 43.68%	0.00% – 49.17%
Other receivables	0.03% – 19.00%	0.04% – 19.00%	0.01% – 19.00%

The total interest income earned amounted to:

	Note	<u>BDO Unibank Group</u>		
		<u>2021</u>	<u>2020</u>	<u>2019</u>
Loans and discounts		P 123,545	P 137,590	P 140,044
Other receivables		<u>1,003</u>	<u>1,146</u>	<u>2,864</u>
	23	<u>P 124,548</u>	<u>P 138,736</u>	<u>P 142,908</u>
	Note	<u>Parent Bank</u>		
		<u>2021</u>	<u>2020</u>	<u>2019</u>
Loans and discounts		P 118,667	P 133,261	P 135,691
Other receivables		<u>899</u>	<u>1,068</u>	<u>2,830</u>
	23	<u>P 119,566</u>	<u>P 134,329</u>	<u>P 138,521</u>

Interest income recognized on impaired loans and receivables amounted to P6,046, P4,557 and P804 in 2021, 2020 and 2019, respectively, for the BDO Unibank Group, and P6,025, P4,353 and P788 in 2021, 2020 and 2019, respectively, for the Parent Bank.

Certain receivables from customers of the BDO Unibank Group and the Parent Bank amounting to P29,497 and P26,045, respectively, in 2021 and P43,976 and P40,744, respectively, in 2020, are subject to offsetting with the corresponding collaterals received as a means of security amounting to P26,216 and P26,045, respectively, in 2021, and P40,904 and P40,744, respectively, for 2020, indicating a legally enforceable right to offset the recognized amounts with an intention to settle on a net basis (see Note 7.6).

Impairment losses recognized for loans and receivables for BDO Unibank Group and the Parent Bank amounted to P17,222 and P17,006, respectively, in 2021, P29,519 and P28,905, respectively, in 2020, and P5,986 and P5,725, respectively, in 2019 (see Note 16).

12. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment of premises, furniture, fixtures and equipment at the beginning and end of 2021 and 2020 are shown below and in the succeeding page.

BDO Unibank Group

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
December 31, 2021							
Cost	P 8,409	P 27,867	P 24,044	P 8,373	P 1,316	P 16,704	P 86,713
Accumulated depreciation and amortization	-	(18,527)	(9,384)	(6,902)	-	(6,446)	(41,259)
Allowance for Impairment (see Note 16)	(343)	-	(304)	-	-	-	(647)
Net Carrying Amount	<u>P 8,066</u>	<u>P 9,340</u>	<u>P 14,356</u>	<u>P 1,471</u>	<u>P 1,316</u>	<u>P 10,258</u>	<u>P 44,807</u>
December 31, 2020							
Cost	P 8,405	P 27,194	P 22,792	P 7,823	P 977	P 14,420	P 81,611
Accumulated depreciation and amortization	-	(17,532)	(8,343)	(6,299)	-	(4,460)	(36,634)
Allowance for Impairment (see Note 16)	(271)	-	(376)	-	-	-	(647)
Net Carrying Amount	<u>P 8,134</u>	<u>P 9,662</u>	<u>P 14,073</u>	<u>P 1,524</u>	<u>P 977</u>	<u>P 9,960</u>	<u>P 44,330</u>
January 1, 2020							
Cost	P 8,190	P 26,789	P 22,697	P 7,623	P 1,137	P 12,913	P 79,349
Accumulated depreciation and amortization	-	(16,392)	(7,748)	(5,580)	-	(2,433)	(32,153)
Allowance for Impairment (see Note 16)	(269)	-	(376)	-	-	-	(645)
Net Carrying Amount	<u>P 7,921</u>	<u>P 10,397</u>	<u>P 14,573</u>	<u>P 2,043</u>	<u>P 1,137</u>	<u>P 10,480</u>	<u>P 46,551</u>

Parent Bank

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
December 31, 2021							
Cost	P 7,669	P 23,434	P 22,734	P 7,497	P 1,314	P 16,252	P 78,900
Accumulated depreciation and amortization	-	(15,468)	(8,781)	(6,273)	-	(6,296)	(36,818)
Allowance for Impairment (see Note 16)	(197)	-	(299)	-	-	-	(496)
Net Carrying Amount	<u>P 7,472</u>	<u>P 7,966</u>	<u>P 13,654</u>	<u>P 1,224</u>	<u>P 1,314</u>	<u>P 9,956</u>	<u>P 41,586</u>
December 31, 2020							
Cost	P 7,665	P 22,151	P 21,517	P 7,060	P 970	P 14,142	P 73,505
Accumulated depreciation and amortization	-	(14,303)	(7,807)	(5,740)	-	(4,327)	(32,177)
Allowance for Impairment (see Note 16)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	<u>P 7,540</u>	<u>P 7,848</u>	<u>P 13,339</u>	<u>P 1,320</u>	<u>P 970</u>	<u>P 9,815</u>	<u>P 40,832</u>
January 1, 2020							
Cost	P 7,450	P 21,083	P 21,450	P 6,926	P 1,137	P 12,781	P 70,827
Accumulated depreciation and amortization	-	(13,047)	(7,285)	(5,118)	-	(2,387)	(27,837)
Allowance for Impairment (see Note 16)	(125)	-	(371)	-	-	-	(496)
Net Carrying Amount	<u>P 7,325</u>	<u>P 8,036</u>	<u>P 13,794</u>	<u>P 1,808</u>	<u>P 1,137</u>	<u>P 10,394</u>	<u>P 42,494</u>

A reconciliation of the carrying amounts at the beginning and end of 2021 and 2020 of premises, furniture, fixtures and equipment is shown below and in the succeeding page.

BDO Unibank Group

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation, amortization and impairment	P 8,134	P 9,662	P 14,073	P 1,524	P 977	P 9,960	P 44,330
Additions	21	2,084	664	568	516	3,216	7,069
Disposals	(-)	(101)	(47)	(13)	-	-	(161)
Reclassifications	(72)	218	721	73	(172)	-	768
Adjustments	-	-	-	(1)	-	(406)	(407)
Reversal	(17)	-	-	(2)	(5)	-	(24)
Foreign exchange revaluation	-	1	5	1	-	4	11
Depreciation and amortization charges for the year	-	(2,524)	(1,060)	(679)	-	(2,516)	(6,779)
Balance at December 31, 2021, net of accumulated depreciation, amortization and impairment	<u>P 8,066</u>	<u>P 9,340</u>	<u>P 14,356</u>	<u>P 1,471</u>	<u>P 1,316</u>	<u>P 10,258</u>	<u>P 44,807</u>
Balance at January 1, 2020, net of accumulated depreciation, amortization and impairment	P 7,921	P 10,397	P 14,573	P 2,043	P 1,137	P 10,480	P 46,551
Additions	17	1,825	291	241	715	1,775	4,864
Disposals	(2)	(117)	(6)	(7)	-	-	(132)
Reclassifications	198	195	946	33	(875)	-	497
Adjustments	-	7	(4)	(2)	-	-	1
Reversal	-	(2)	-	-	-	-	(2)
Depreciation and amortization charges for the year	-	(2,643)	(1,727)	(784)	-	(2,295)	(7,449)
Balance at December 31, 2020, net of accumulated depreciation, amortization and impairment	<u>P 8,134</u>	<u>P 9,662</u>	<u>P 14,073</u>	<u>P 1,524</u>	<u>P 977</u>	<u>P 9,960</u>	<u>P 44,330</u>

Parent Bank

	<u>Land</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Buildings</u>	<u>Leasehold Rights and Improvement</u>	<u>Construction in Progress</u>	<u>Right-of- Use Assets</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation, amortization and impairment	P 7,540	P 7,848	P 13,339	P 1,320	P 970	P 9,815	P 40,832
Additions	21	1,722	630	425	516	2,951	6,265
Disposals	(-)	(7)	(46)	(13)	-	-	(66)
Reclassifications	(72)	218	717	72	(167)	-	768
Adjustment	-	-	-	-	-	(407)	(407)
Reversal	(17)	-	-	-	(5)	-	(22)
Foreign exchange revaluation	-	-	-	1	-	5	6
Depreciation and amortization charges for the year	-	(1,815)	(986)	(581)	-	(2,408)	(5,790)
Balance at December 31, 2021, net of accumulated depreciation, amortization and impairment	<u>P 7,472</u>	<u>P 7,966</u>	<u>P 13,654</u>	<u>P 1,224</u>	<u>P 1,314</u>	<u>P 9,956</u>	<u>P 41,586</u>
Balance at January 1, 2020, net of accumulated depreciation, amortization and impairment	P 7,325	P 8,036	P 13,794	P 1,808	P 1,137	P 10,394	P 42,494
Additions	17	1,414	259	171	709	1,628	4,198
Disposals	-	(7)	(7)	(7)	-	-	(21)
Reclassifications	198	195	946	33	(876)	-	496
Adjustment	-	-	-	(1)	-	-	(1)
Depreciation and amortization charges for the year	-	(1,790)	(1,653)	(684)	-	(2,207)	(6,334)
Balance at December 31, 2020, net of accumulated depreciation, amortization and impairment	<u>P 7,540</u>	<u>P 7,848</u>	<u>P 13,339</u>	<u>P 1,320</u>	<u>P 970</u>	<u>P 9,815</u>	<u>P 40,832</u>

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50.00% of a bank's unimpaired capital. As of December 31, 2021 and 2020, the BDO Unibank Group and the Parent Bank have complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2021 and 2020 are still being used in operations with acquisition costs amounting to P8,298 and P7,983, respectively, in the BDO Unibank Group's financial statements and P7,532 and P7,305, respectively, in the Parent Bank's financial statements.

13. LEASES

The BDO Unibank Group and the Parent Bank have leases for certain land and building. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a Right-of-use asset under Premises, Furniture, Fixtures and Equipment (see Note 12) and a Lease liability under Other Liabilities (see Note 21) on the statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the BDO Unibank Group and the Parent Bank to sublet the asset to another party, the right-of-use asset can only be used by the BDO Unibank Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The BDO Unibank Group and the Parent Bank are prohibited from selling or pledging the underlying leased assets as security. For leases over land and office spaces, the BDO Unibank Group and the Parent Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the BDO Unibank Group and the Parent Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The tables below describe the nature of BDO Unibank Group and the Parent Bank's leasing activities by type of right-of-use asset recognized as part of Premises, Furniture, Fixtures and Equipment in the statements of financial position as of December 31, 2021 and 2020.

	Number of Right-of-use Asset Leased		Range of Remaining Term		Average Remaining Lease Term	
	2021	2020	2021	2020	2021	2020
<u>BDO Unibank Group</u>						
Land	58	51	4 mos. – 28 yrs.	3 mos. – 26 yrs.	12 yrs.	12 yrs.
Building	1,568	1,478	1 mo. – 16 yrs.	1 mo. – 28 yrs.	2.2 yrs.	3.1 yrs.
<u>Parent Bank</u>						
Land	58	51	4 mos. – 28 yrs.	3 mos. – 26 yrs.	12 yrs.	12 yrs.
Building	1,281	1,263	1 mo. – 16 yrs.	1 mo. – 27.5 yrs.	4 yrs.	4.2 yrs.

13.1 Right-of-Use Assets

The carrying amounts of BDO Unibank Group and the Parent Bank's right-of-use assets as at December 31, 2021 and 2020 and the movements during the period are shown below (see Note 12).

BDO Unibank Group

	<u>Land</u>		<u>Buildings</u>		<u>Total</u>
Balance at January 1, 2021	P 416		P 9,544		P 9,960
Additions	44		3,172		3,216
Reclassification	38	(38)			-
Adjustment	(6)	(400)			(406)
Foreign exchange revaluation	-		4		4
Depreciation and amortization	(58)	(2,458)			(2,516)
Balance at December 31, 2021	<u>P 434</u>		<u>P 9,824</u>		<u>P 10,258</u>
Balance at January 1, 2020	P 449		P 10,031		P 10,480
Additions	14		1,761		1,775
Depreciation and amortization	(47)	(2,248)			(2,295)
Balance at December 31, 2020	<u>P 416</u>		<u>P 9,544</u>		<u>P 9,960</u>

Parent Bank

	<u>Land</u>		<u>Buildings</u>		<u>Total</u>
Balance at January 1, 2021	P 444		P 9,371		P 9,815
Additions	44		2,907		2,951
Reclassification	38	(38)			-
Adjustment	(7)	(400)			(407)
Foreign exchange revaluation	-		5		5
Depreciation and amortization	(60)	(2,348)			(2,408)
Balance at December 31, 2021	<u>P 459</u>		<u>P 9,497</u>		<u>P 9,956</u>
Balance at January 1, 2020	P 478		P 9,916		P 10,394
Additions	14		1,614		1,628
Depreciation and amortization	(48)	(2,159)			(2,207)
Balance at December 31, 2020	<u>P 444</u>		<u>P 9,371</u>		<u>P 9,815</u>

13.2 Lease Liabilities

Lease liabilities amounting to P12,087 and P11,701 as at December 31, 2021 and December 31, 2020, respectively, for the BDO Unibank Group and P11,800 and P11,551, as at December 31, 2021 and December 31, 2020, respectively, for the Parent Bank are presented in the statements of financial position as part of Other Liabilities (see Note 21).

The use of extension and termination options gives the BDO Unibank Group and the Parent Bank added flexibility in the event that it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the BDO Unibank Group and the Parent Bank's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost. As at December 31, 2021, the terms of the lease contracts of the BDO Unibank Group and the Parent Bank are renewable upon mutual agreement of the parties.

As of December 31, 2021, the BDO Unibank Group and the Parent Bank had not committed to any lease which had not yet commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2021 and 2020 for the BDO Unibank Group and the Parent Bank are as follows :

December 31, 2021

BDO Unibank Group

	<u>Within 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 4 Years</u>	<u>4 to 5 Years</u>	<u>5 to 10 Years</u>	<u>10 or More Years</u>	<u>Total</u>
Lease payments	P 3,495	P 2,826	P 2,306	P 1,803	P 1,370	P 2,256	P 517	P 14,573
Finance charges	(675)	(517)	(391)	(275)	(184)	(317)	(127)	(2,486)
Net present value	<u>P 2,820</u>	<u>P 2,309</u>	<u>P 1,915</u>	<u>P 1,528</u>	<u>P 1,186</u>	<u>P 1,939</u>	<u>P 390</u>	<u>P 12,087</u>

Parent Bank

	<u>Within 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 4 Years</u>	<u>4 to 5 Years</u>	<u>5 to 10 Years</u>	<u>10 or More Years</u>	<u>Total</u>
Lease payments	P 3,386	P 2,727	P 2,227	P 1,779	P 1,355	P 2,263	P 561	P 14,298
Finance charges	(667)	(513)	(385)	(276)	(186)	(327)	(144)	(2,498)
Net present value	<u>P 2,719</u>	<u>P 2,214</u>	<u>P 1,842</u>	<u>P 1,503</u>	<u>P 1,169</u>	<u>P 1,936</u>	<u>P 417</u>	<u>P 11,800</u>

December 31, 2020

BDO Unibank Group

	<u>Within 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 4 Years</u>	<u>4 to 5 Years</u>	<u>5 to 10 Years</u>	<u>10 or More Years</u>	<u>Total</u>
Lease payments	P 3,181	P 2,696	P 2,186	P 1,652	P 1,231	P 2,739	P 557	P 14,242
Finance charges	(647)	(502)	(378)	(281)	(207)	(368)	(158)	(2,541)
Net present value	<u>P 2,534</u>	<u>P 2,194</u>	<u>P 1,808</u>	<u>P 1,371</u>	<u>P 1,024</u>	<u>P 2,371</u>	<u>P 399</u>	<u>P 11,701</u>

Parent Bank

	<u>Within 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>3 to 4 Years</u>	<u>4 to 5 Years</u>	<u>5 to 10 Years</u>	<u>10 or More Years</u>	<u>Total</u>
Lease payments	P 3,101	P 2,648	P 2,143	P 1,639	P 1,236	P 2,754	P 606	P 14,127
Finance charges	(644)	(502)	(379)	(284)	(210)	(379)	(178)	(2,576)
Net present value	<u>P 2,457</u>	<u>P 2,146</u>	<u>P 1,764</u>	<u>P 1,355</u>	<u>P 1,026</u>	<u>P 2,375</u>	<u>P 428</u>	<u>P 11,551</u>

The BDO Unibank Group and the Parent Bank sublease its leased properties. The total income earned from the subleasing activities amounted to nil in 2021, 2020 and 2019 for the BDO Unibank Group and P2, P2 and P1 in 2021, 2020 and 2019, respectively, for the Parent Bank.

The total cash outflow in respect to leases amounted to P3,238, P2,940 and P3,122 in 2021, 2020 and 2019, respectively, for the BDO Unibank Group and P3,100, P2,828 and P3,076 in 2021, 2020 and 2019, respectively, for the Parent Bank. Interest expense in relation to lease liabilities amounted to P817, P690 and P827 in 2021, 2020 and 2019, respectively, for the BDO Unibank Group and P807, P675 and P822 in 2021, 2020 and 2019, respectively, for the Parent Bank which are, presented as part of Interest expense on lease liabilities under Interest Expense account in the statements of income (see Notes 21 and 24).

13.3 Lease Payments Not Recognized as Liabilities

The BDO Unibank Group and the Parent Bank have elected not to recognize a lease liability for short-term leases or for leases of low value assets. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities. Payments made under such leases are expensed as incurred.

The expenses relating to short-term leases and low-value assets amounted to P8 and P336 in 2021, P4 and P269 in 2020 and P1 and P404 in 2019 for the BDO Unibank Group, respectively, and nil and P328 in 2021, nil and P262 in 2020 and nil and P399 in 2019 for the Parent Bank, respectively. Moreover, expenses relating to variable lease payments amounted to P114, P171 and P267 for the BDO Unibank Group and P114, P171 and P260 for the Parent Bank in 2021, 2020 and 2019, respectively. These are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 25). As of December 31, 2021, 2020 and 2019, the Parent Bank do not have lease commitments in relation to short term leases.

14. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P431 and P86 in 2021, P366 and P83 in 2020, and P435 and P88 in 2019 in the BDO Unibank Group and the Parent Bank's financial statements, respectively, and are presented as part of Rental under Other Operating Income account (see Note 25). Direct expenses incurred from these properties such as taxes and licenses amounted to P34 and P3 in 2021, P23 and P2 in 2020, and P32 and P3 in 2019 in the BDO Unibank Group and the Parent Bank's financial statements, respectively, and are presented as part of Taxes and licenses under Other Operating Expenses account in the BDO Unibank Group and Parent Bank's financial statements, respectively (see Note 25).

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2021 and 2020 are shown below and in the succeeding page.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>BDO Unibank Group</u>			
December 31, 2021			
Cost	P 9,288	P 16,648	P 25,936
Accumulated depreciation	-	(5,412)	(5,412)
Allowance for impairment (see Note 16)	(1,658)	(71)	(1,729)
Net carrying amount	<u>P 7,630</u>	<u>P 11,165</u>	<u>P 18,795</u>

BDO Unibank Group

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2020			
Cost	P 9,176	P 13,310	P 22,486
Accumulated depreciation	-	(4,773)	(4,773)
Allowance for impairment (see Note 16)	(1,773)	(89)	(1,862)
Net carrying amount	<u>P 7,403</u>	<u>P 8,448</u>	<u>P 15,851</u>
January 1, 2020			
Cost			
Accumulated depreciation	P 9,616	P 13,359	P 22,975
Allowance for impairment	-	(4,189)	(4,189)
(see Note 16)	(1,776)	(99)	(1,875)
Net carrying amount	<u>P 7,840</u>	<u>P 9,071</u>	<u>P 16,911</u>

Parent Bank

December 31, 2021

Cost	P 7,029	P 10,473	P 17,502
Accumulated depreciation	-	(4,829)	(4,829)
Allowance for impairment (see Note 16)	(1,378)	(32)	(1,410)
Net carrying amount	<u>P 5,651</u>	<u>P 5,612</u>	<u>P 11,263</u>
December 31, 2020			
Cost	P 6,916	P 10,775	P 17,691
Accumulated depreciation	-	(4,320)	(4,320)
Allowance for impairment (see Note 16)	(1,493)	(43)	(1,536)
Net carrying amount	<u>P 5,423</u>	<u>P 6,412</u>	<u>P 11,835</u>
January 1, 2020			
Cost	P 7,218	P 10,712	P 17,930
Accumulated depreciation	-	(3,810)	(3,810)
Allowance for impairment (see Note 16)	(1,474)	(51)	(1,525)
Net carrying amount	<u>P 5,744</u>	<u>P 6,851</u>	<u>P 12,595</u>

A reconciliation of the carrying amounts, at the beginning and end of 2021 and 2020, of investment properties is shown below and in the succeeding page.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>BDO Unibank Group</u>			
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 7,403	P 8,448	P 15,851
Additions	606	4,415	5,021
Reclassifications	126	(466)	(340)
Disposals	(511)	(309)	(820)
Foreign exchange revaluation	6	84	90
Depreciation for the year	<u>-</u>	<u>(1,007)</u>	<u>(1,007)</u>
Balance at December 31, 2021, net of accumulated depreciation and impairment	<u>P 7,630</u>	<u>P 11,165</u>	<u>P 18,795</u>
Balance at January 1, 2020, net of accumulated depreciation and impairment	P 7,840	P 9,071	P 16,911
Additions	467	827	1,294
Reclassifications	(239)	(62)	(301)
Disposals	(658)	(395)	(1,053)
Foreign exchange revaluation	(7)	(40)	(47)
Depreciation for the year	<u>-</u>	<u>(953)</u>	<u>(953)</u>
Balance at December 31, 2020, net of accumulated depreciation and impairment	<u>P 7,403</u>	<u>P 8,448</u>	<u>P 15,851</u>

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Parent Bank			
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 5,423	P 6,412	P 11,835
Additions	606	865	1,471
Disposals	(510)	(309)	(819)
Reclassifications	126	(472)	(346)
Foreign exchange revaluation	6	-	6
Depreciation for the year	<u>-</u>	<u>(884)</u>	<u>(884)</u>
Balance at December 31, 2021, net of accumulated depreciation and impairment	<u>P 5,651</u>	<u>P 5,612</u>	<u>P 11,263</u>
Balance at January 1, 2020, net of accumulated depreciation and impairment	P 5,744	P 6,851	P 12,595
Additions	460	784	1,244
Disposals	(535)	(310)	(845)
Reclassifications	(239)	(62)	(301)
Foreign exchange revaluation	(7)	-	(7)
Depreciation for the year	<u>-</u>	<u>(851)</u>	<u>(851)</u>
Balance at December 31, 2020, net of accumulated depreciation and impairment	<u>P 5,423</u>	<u>P 6,412</u>	<u>P 11,835</u>

The fair value of investment properties as of December 31, 2021 and 2020, determined using observable recent prices of the reference properties adjusted for difference and replacement cost approach, amounted to P40,135 and P33,156, respectively, for the BDO Unibank Group's financial statements and P32,736 and P30,947, respectively, for the Parent Bank's financial statements. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 7.5.

The recoverable amount of impaired investment properties as of December 31, 2021 and 2020 was based on value in use computed through discounted cash flows method at an effective rate of 0.69% and 0.83% in 2021 and 2020, respectively.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, neither maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, financial assets at FVOCI, other resources or non-current assets held for sale.

As of December 31, 2021 and 2020, ROPA, gross of allowance, comprise of the following:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Investment properties	P 11,070	P 11,223	P 11,028	P 11,210
Financial assets at FVOCI	499	1,468	499	1,467
Non-current assets held for sale	<u>1,954</u>	<u>1,066</u>	<u>1,952</u>	<u>1,066</u>
	<u>P 13,523</u>	<u>P 13,757</u>	<u>P 13,479</u>	<u>P 13,743</u>

15. OTHER RESOURCES

The components of this account are shown below.

	Notes	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Deferred charges	15.1	P 7,852	P 9,316	P 7,852	P 9,316
Deferred tax assets - net	31.1	6,768	7,911	6,262	7,383
Foreign currency notes and coins on hand		5,597	8,578	5,597	8,577
Equity investments	15.2	5,347	5,015	43,839	37,720
Goodwill	15.3	4,535	4,535	1,391	1,391
Computer software - net		3,696	2,121	3,535	1,966
Branch licenses	15.4	3,020	3,020	3,020	3,020
Non-current assets held for sale	15.5	1,954	1,066	1,952	1,066
Credit card acquiring		1,226	3,888	1,226	3,888
Margin deposits		581	214	187	178
Customer lists - net	15.7	487	487	487	487
Prepaid documentary stamps		454	475	414	444
Real properties for development and sale		260	350	-	-
Returned checks and other cash items		58	211	24	208
Dividend receivable		-	111	-	78
Trademark - net	15.6	-	25	-	25
Retirement assets	26.2	-	1,300	-	1,217
Others	15.7, 20	<u>9,966</u>	<u>9,355</u>	<u>8,578</u>	<u>8,471</u>
		<u>51,801</u>	<u>57,978</u>	<u>84,364</u>	<u>85,435</u>
Allowance for impairment	16	(<u>2,921</u>)	<u>(2,826)</u>	(<u>2,602</u>)	<u>(2,522)</u>
		<u>P 48,880</u>	<u>P 55,152</u>	<u>P 81,762</u>	<u>P 82,913</u>

15.1 Deferred Charges

Deferred charges represent the unamortized portion of loan origination fees, which consist of commission and other fees related to auto loans, presented as part of Receivables from customers - Loans and discounts account under Loans and Other Receivables in the statements of financial position (see Note 11). This amount is initially deducted from the loan proceeds issued to the borrowers and then subsequently amortized over the term of the loan. In addition, this account also includes origination costs related to Long-term Negotiable Certificate of Deposits (LTNCD) presented as part of Time deposit liabilities under Deposit Liabilities account in the statements of financial position (see Note 17). This also includes originating costs related to Fixed Rate Bonds, Bills Payable and Senior Notes (see Note 18).

15.2 Equity Investments

Equity investments consist of the following:

	Held	BDO Unibank Group		Parent Bank	
		2021	2020	2021	2020
Philippine subsidiaries					
BDO Network	84.87%	P -	P -	P 8,166	P 8,166
BDOSHI	100%	-	-	5,684	5,684
BDO Life	97%	-	-	3,403	3,403
BDO Private	100%	-	-	2,579	2,579
BDO Leasing	87.43%	-	-	1,878	1,878
BDO Capital	99.88%	-	-	1,878	1,878
BDOI	100%	-	-	11	11
Equipmark	60%	-	-	4	4
		-	-	23,603	23,603
Foreign subsidiaries					
BDORO	100%	-	-	169	169
BDO Remit (Japan) Ltd.	100%	-	-	92	92
BDO Remit (Canada) Ltd.	100%	-	-	50	50
BDO Remit (USA), Inc.	100%	-	-	26	26
		-	-	337	337
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	1,658	1,658	1,658	1,658
NLEX Corporation	11.70%	1,405	1,405	1,405	1,405
NorthPine Land, Inc.	20%	232	232	232	232
Taal Land, Inc.	33.33%	170	170	170	170
BDO Securities	2.65%	-	-	35	35
		3,465	3,465	3,500	3,500
Accumulated equity in total comprehensive income:					
Balance at beginning of year		1,550	1,578	10,280	12,711
Equity in net profit		814	470	6,350	3,839
Equity in other comprehensive income (loss)		(6)	(10)	2,587	(4,610)
Dividends		(476)	(488)	(2,818)	(1,913)
Disposal		-	-	-	208
Change in percentage ownership in subsidiaries		-	-	-	11
Liquidation		-	-	-	34
Balance at end of year		1,882	1,550	16,399	10,280
Net investments in associates/subsidiaries		5,347	5,015	43,839	37,720
Allowance for impairment		(153)	(153)	(153)	(153)
		P 5,194	P 4,862	P 43,686	P 37,567

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank in both 2021 and 2020, except for BDO Life, BDO Leasing and BDO Securities which is at 100%, 88.54% and 99.88% for BDO Unibank Group, respectively (see Note 2.3) and 97.00%, 87.43% and 2.65% in the Parent Bank, respectively, as shown in the previous page, in both years.

In 2020, the trading of the shares of BDO Leasing were suspended indefinitely. Using the last traded price on January 24, 2020, the fair value amounts to P6,050. For the remaining equity investments, the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique using the net present value of future cash flows.

BDO Unibank Group's subsidiaries as of December 31, 2021 are all incorporated in the Philippines, except for the following:

<u>Foreign Subsidiaries</u>	<u>Country of Incorporation</u>
BDO Remit (USA), Inc.	United States of America
BDORO	United Kingdom
BDO Remit International Holdings B.V**	Netherlands
BDO Remit UK, Ltd. **	United Kingdom
BDO Remit (Spain), S.A**	Spain
CBN Greece S.A. **	Greece
BDO Remit (Japan) Ltd.	Japan
BDO Remit (Canada) Ltd.	Canada
BDO Remit Limited*	Hongkong
BDO Remit (Macau) Ltd.*	Macau

*Wholly-owned subsidiaries of BDOSHI

**Subsidiaries of BDO Capital

On May 30, 2012, BDORO was registered with the Registrar of Companies for England and Wales (UK) as a private limited company with registered office at the 8th floor, 20 Farringdon Street, London. As of December 31, 2021 and 2020, the Parent Bank's outstanding investment in BDORO amounted to P169.

BDO Remit (Canada) Ltd., a wholly-owned remittance subsidiary in Vancouver, Canada operates as a remittance business and function as a marketing office of the Parent Bank. As of December 31, 2021 and 2020, the Parent Bank's outstanding investment in BDO Remit (Canada) Ltd. amounted to P50.

In May 2013, BDO Capital obtained control over BDO Remit International Holdings, B.V. (formerly CBN Grupo International Holdings B.V.) through its 60% ownership. Goodwill amounted to P91 and non-controlling share in equity totaled P39 at the date the BDO Unibank Group's control was established. In October 2016, BDO Capital acquired additional shares which increased its ownership interest to 96.32%. Additional goodwill acquired amounted to P32 (see Note 30.1).

On December 5, 2020, the BOD of the Parent Bank approved the write-off of the investment in PCI Realty Corporation.

On June 30, 2021, the BOD of BDONB approved the conversion of the bank from a rural bank to a savings bank. This was ratified by the BDONB shareholders on August 13, 2021 and approved by the BSP on January 20, 2022.

BDO Unibank Group includes two subsidiaries, BDO Leasing and BDO Network, with significant NCI:

<u>Name</u>	<u>Proportion of Ownership Interest and Voting Rights Held by NCI</u>		<u>Profit Allocated to NCI</u>		<u>Accumulated NCI</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	BDO Leasing	11.46%	11.46%	P 5	P 29	P 689	P 684
BDO Network	15.13%	15.13%	58	18	941	930

The registered office and principal place of business of BDO Leasing is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The registered office and principal place of business of BDO Network is located at BDONB Center, Km. 9, Sasa, Davao City.

No dividends were paid to NCI in 2021 and 2020, respectively (see Note 22.3).

The summarized consolidated financial information of BDO Leasing and BDO Network, before intragroup eliminations, follows:

	BDO Leasing	
	<u>2021</u>	<u>2020</u>
<i>Statements of financial position:</i>		
Total current resources	P 6,020	P 5,996
Total current liabilities	8	28
Equity attributable to owners of the parent	5,323	5,284
Non-controlling interest	689	684
<i>Statements of comprehensive income:</i>		
Total interest income	-	1,116
Total other operating income	57	1,250
Profit attributable to owners of the parent	39	223
Profit attributable to NCI	5	29
Profit	44	252
Total comprehensive income attributable to owners of the parent	39	187
Total comprehensive income attributable to NCI	5	24
Total comprehensive income	P 44	P 211
<i>Statements of cash flows:</i>		
Net cash from (used in) operating activities	(P 31)	P 20,735
Net cash used in investing activities	(70)	(636)
Net cash used in financing activities	-	(20,113)
Net cash outflow	(P 101)	(P 14)
BDO Network		
	<u>2021</u>	<u>2020</u>
<i>Statements of financial position:</i>		
Total current resources	P 10,091	P 7,136
Total non-current resources	44,648	33,623
Total current liabilities	47,743	10,384
Total non-current liabilities	776	24,226
Equity attributable to owners of the parent	5,278	5,219
Non-controlling interest	941	930

	BDO Network	
	<u>2021</u>	<u>2020</u>
<i>Statements of comprehensive income:</i>		
Total interest income	4,343	3,234
Total other operating income	2,090	1,428
Profit attributable to owners of the parent	325	103
Profit attributable to NCI	58	18
Profit	383	121
Total comprehensive income attributable to owners of the parent	59	92
Total comprehensive income attributable to NCI	<u>11</u>	<u>16</u>
Total comprehensive income	<u>P 70</u>	<u>P 108</u>
<i>Statements of cash flows:</i>		
Net cash from (used in) operating activities	P 7,924	P 1,151
Net cash used in investing activities	(5,685)	(1,498)
Net cash used in financing activities	<u>(125)</u>	<u>(81)</u>
Net cash inflow (outflow)	<u>P 2,114</u>	<u>(P 428)</u>

The following table presents the summarized financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2021, 2020 and 2019:

	<u>NLEX Corporation</u>	<u>SM Keppel</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2021</u>				
<u>(Unaudited)</u>				
Assets	P 69,743	P 15,796	P 3,922	P 89,461
Current	7,383	2,232	2,986	12,601
Non-current	62,360	13,564	936	76,860
Liabilities	46,724	11,231	1,233	59,188
Current	5,897	1,335	1,214	8,446
Non-current	40,827	9,896	19	50,742
Equity	23,019	4,565	2,689	30,273
Revenues	12,851	570	1,328	14,749
Net profit	5,108	105	259	5,472
<u>December 31, 2020</u>				
<u>(Audited)</u>				
Assets	P 62,786	P 15,447	P 3,149	P 81,382
Current	4,020	1,862	2,944	8,826
Non-current	58,766	13,585	205	72,556
Liabilities	42,672	10,987	718	54,377
Current	13,016	2,138	699	15,853
Non-current	29,656	8,849	19	38,524
Equity	20,114	4,460	2,431	27,005
Revenues	18,107	674	843	19,624
Net profit (loss)	3,604 (	84)	118	3,638

		<u>NLEX</u>		<u>SM</u>		<u>Others</u>		<u>Total</u>
		<u>Corporation</u>		<u>Keppel</u>				
<u>December 31, 2019</u>								
<u>(Audited)</u>								
Assets	P	57,903	P	15,433	P	3,178	P	76,514
Current		5,586		1,768		2,567		9,921
Non-current		52,317		13,665		611		66,593
Liabilities		38,375		10,889		855		50,119
Current		8,026		2,274		630		10,930
Non-current		30,349		8,615		225		39,189
Equity		19,528		4,544		2,323		26,395
Revenues		23,016		654		1,229		24,899
Net profit		6,634		47		217		6,898

15.3 Goodwill

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and relates mainly to business synergy for economics of scale and scope. This is from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank, Rural Bank of San Juan, Inc., Rural Bank of San Enrique, Inc., BDO RIH, BDO Savings, Inc. (BDO Savings), BDO Network and Rural Bank of Pandi, Inc. (RBPI), which were acquired in 2005, 2006, 2007, 2009, 2012, 2013, 2014, 2015, 2016 and 2019, respectively (see Note 30).

The reconciliation of the carrying amount of goodwill (net of allowance for impairment) of BDO Unibank Group is as follows:

	<u>2021</u>		<u>2020</u>	
Balance at beginning of year	P	3,057	P	3,075
Impairment	(	36)	(	18)
Balance at end of year	P	<u>3,021</u>	P	<u>3,057</u>

In 2021 and 2020 there was no movement for the goodwill account of the Parent Bank, which was already provided with full allowance.

Significant portion of goodwill of the BDO Unibank pertains to the goodwill from acquisition of BDO Network amounting to P2,907.

On August 22, 2019, the Monetary Board of the BSP approved the asset sale and purchase agreement between BDO Network and RBPI. The transaction was completed on October 31, 2019. The total goodwill recognized, representing cash premium, amounted to P100.

The BDO Unibank Group recognized impairment loss on goodwill of P36, P18 and P69 in 2021, 2020 and 2019, respectively. The Parent Bank did not recognize any impairment loss in 2021, 2020 and 2019, to write-down the value of the goodwill to their recoverable amount.

The BDO Unibank Group and the Parent Bank provided impairment losses on some of its goodwill as it does not expect any economic benefit on this asset in the succeeding periods since the branch business grew as a result of the efforts and brand of the Parent Bank and is not a result of the customers of the previous banks acquired. The recoverable amount to determine any impairment on the goodwill was determined using discounted cash flow method approach based on five-year cash flow projection to be realized by the acquired entity and the estimated terminal value. The growth rate used to extrapolate the ten-year cash flow projection ranges from 6% to 19% at a discount rate of 3%. The BDO Unibank Group also considered key assumptions in determining the cash flow projections which includes volume and growth target projection on salary loans and micro, small and medium enterprises (MSME) loans offered by BDO Network.

15.4 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Bank to establish certain number of branches as an incentive in acquiring The Real Bank (A Thrift Bank), Inc. and BDO Savings in addition to the current branches of the acquired banks. The Parent Bank performs annual impairment testing of branch licenses.

In 2021 and 2020, there were no allowance on impairment loss on branch license recognized in the BDO Unibank Group and Parent Bank's financial statements, since all branch licenses were already utilized as of December 31, 2021 and 2020. The recoverable amount to determine any impairment on the branch licenses was determined using discounted cash flow method approach based on cash flow projection to be realized by the branch and the estimated terminal value. The growth rate used to extrapolate the cash flow projection ranges from 6% to 19% at a discount rate of 3%.

15.5 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group and the Parent Bank intend to sell within one year from the date of classification as held for sale. No impairment loss was recognized in 2019 to 2021 in both the BDO Unibank Group and Parent Bank's financial statements.

15.6 Trademark

Amortization expense on trademark arising from acquisition of Diners Club International credit card portfolio amounted to P25, P33 and P33 in 2021, 2020 and 2019, respectively. This is recorded under Miscellaneous under Other Operating Expenses account in the statements of income (see Note 25).

15.7 Others

Amortization expense on computer software licenses amounted to P1,342, P734 and P546 in 2021, 2020 and 2019, respectively, in the BDO Unibank Group's financial statements and P1,291, P696 and P502 in 2021, 2020 and 2019, respectively, in the Parent Bank's financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 25).

Depreciation and amortization expense on certain assets amounting to P45, P21 and P21 in 2021, 2020 and 2019, respectively, in both BDO Unibank Group and Parent Bank's financial statements are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 25).

No impairment loss was recognized by the Parent Bank from 2019 to 2021 on the value of customer lists. The customer list was recognized as a result of the Parent Bank's acquisition of a trust business in 2014.

In 2020, the BDO Unibank Group and the Parent Bank set-aside an additional ESOP fund for the purchase of secondary shares amounting to P4,814.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	BDO Unibank Group		Parent Bank	
		2021	2020	2021	2020
Balance at beginning of year:					
Investment securities at amortized cost	10.3	P 1,590	P 1,553	P 1,571	P 1,543
Loans and other receivables	11	58,851	32,666	56,274	29,833
Bank premises	12	647	645	496	496
Investment properties	14	1,862	1,875	1,536	1,525
Other resources	15	<u>2,826</u>	<u>2,373</u>	<u>2,522</u>	<u>2,081</u>
		65,776	39,112	62,399	35,478
Impairment losses (recoveries)					
Investment securities at amortized cost	10.3	(192)	P 105	(190)	96
Loans and other receivables	11	17,222	29,519	17,006	28,905
Other resources		<u>93</u>	<u>511</u>	<u>56</u>	<u>491</u>
		17,123	30,135	16,872	29,492
Write-offs and other adjustments					
Write-offs		(8,970)	(2,971)	(8,353)	(2,831)
Foreign currency revaluation		549	(332)	551	(332)
Reclassification		86	(164)	86	(164)
Adjustments		(52)	615	-	756
Reversals		(1)	(619)	-	-
		(8,388)	(3,471)	(7,716)	(2,571)
Balance at end of year:					
Investment securities at amortized cost	10.3	P 1,471	P 1,590	P 1,455	P 1,571
Loans and other receivables	11	67,743	58,851	65,592	56,274
Bank premises	12	647	647	496	496
Investment properties	14	1,729	1,862	1,410	1,536
Other resources	15	<u>2,921</u>	<u>2,826</u>	<u>2,602</u>	<u>2,522</u>
		P 74,511	P 65,776	P 71,555	P 62,399

The BDO Unibank Group and the Parent Bank provided impairment loss (reversal) on debt securities measured as FVOCI amounting to (P88) and (P71), respectively, in 2021, P37 and P36, respectively, in 2020 and P13 and P5, respectively, in 2019. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statements of comprehensive income (see Note 10.2).

The BDO Unibank Group and the Parent Bank also provided impairment loss (recovery) on loan commitments and other contingent accounts amounting to P28, P68 and (P67) in 2021, 2020 and 2019, respectively, which is recognized as Provision – Others under Other Liabilities in the statements of financial position (see Note 21). In addition, the BDO Unibank Group and the Parent Bank also provided impairment loss related to provision for damage suits amounting to P12 in 2019 (nil in 2021 and 2020), which were recognized as part of Others under Other Liabilities in the statements of financial position (see Note 21).

Total impairment losses on certain financial assets amounted to P17,030, P29,624 and P6,008 in 2021, 2020 and 2019, respectively, in the BDO Unibank Group's statements of income and P16,816, P29,001 and P5,749 in 2021, 2020 and 2019, respectively, in the Parent Bank's statements of income.

Total impairment losses on non-financial assets amounted to P93, P511 and P200 in 2021, 2020 and 2019, respectively, in the BDO Unibank Group's statements of income and P56, P491, and nil in 2021, 2020 and 2019, respectively, in the Parent Bank's statements of income.

17. DEPOSIT LIABILITIES

The breakdown of this account follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Demand	P 404,568	P 314,256	P 381,824	P 292,040
Savings	2,000,245	1,810,164	1,972,851	1,786,996
Time	416,083	485,731	397,040	469,255
	<u>P2,820,896</u>	<u>P 2,610,151</u>	<u>P 2,751,715</u>	<u>P 2,548,291</u>

This account is composed of the following (by counterparties):

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Due to other banks:				
Demand	P 2,639	P 2,672	P 2,630	P 2,661
Savings	4,672	4,680	4,672	4,680
Time	5,710	9,703	5,530	9,557
	<u>13,021</u>	<u>17,055</u>	<u>12,832</u>	<u>16,898</u>
Due to customers:				
Demand	401,929	311,584	379,194	289,379
Savings	1,995,573	1,805,484	1,968,179	1,782,316
Time	410,373	476,028	391,510	459,698
	<u>2,807,875</u>	<u>2,593,096</u>	<u>2,738,883</u>	<u>2,531,393</u>
	<u>P2,820,896</u>	<u>P 2,610,151</u>	<u>P 2,751,715</u>	<u>P 2,548,291</u>

The breakdown of deposit liabilities as to currency is as follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Philippine pesos	P2,357,528	P 2,191,889	P 2,301,231	P 2,147,261
Foreign currencies	463,368	418,262	450,484	401,030
	<u>P2,820,896</u>	<u>P 2,610,151</u>	<u>P 2,751,715</u>	<u>P 2,548,291</u>

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Less than one year	P2,732,734	P 2,514,315	P2,664,655	P 2,453,190
One to five years	25,667	33,163	25,374	32,428
Beyond five years	62,495	62,673	61,686	62,673
	<u>P2,820,896</u>	<u>P 2,610,151</u>	<u>P 2,751,715</u>	<u>P 2,548,291</u>

The BDO Unibank Group and the Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates ranging from 0.00% to 5.38% in 2021, 2020 and 2019. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates (see Note 24).

The BDO Unibank Group's time deposit liabilities include the Parent Bank's LTNCD as of December 31, 2021 and 2020 as follows:

<u>BSP Approval</u>	<u>Effective Rate</u>	<u>Outstanding Balance</u>		<u>Issue Date</u>	<u>Maturity Date</u>
		<u>2021</u>	<u>2020</u>		
August 15, 2019	4.000%	P 6,500	P 6,500	September 27, 2019	March 27, 2025
May 11, 2018	5.375%	7,320	7,320	April 12, 2019	October 12, 2024
June 23, 2017	4.375%	8,200	8,200	May 7, 2018	November 7, 2023
June 23, 2017	3.625%	11,800	11,800	August 18, 2017	February 18, 2023
		<u>P 33,820</u>	<u>P 33,820</u>		

The net proceeds from the issuance of LTNCD are intended to diversify the Parent Bank's maturity profile of funding source and to support its business expansion plans.

In compliance with the BSP Circular No. 1082 issued on March 31, 2020, the Philippine Peso deposit liabilities of the BDO Unibank Group, under the said circular, are subject to reserve requirement of 12% effective April 3, 2020. Moreover, the Philippine LTNCD under BSP Circular No. 824 and LTNCD under BSP Circular No. 304 of the BDO Unibank Group are likewise subject to a reserve requirement of 4% and 3%, respectively, effective May 31, 2019.

18. **BILLS PAYABLE**

This account is composed of the following borrowings from:

	<u>Note</u>	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Fixed rate bonds	18.2	P 76,436	P 76,156	P 76,436	P 76,156
Senior notes	18.1	73,053	83,138	73,053	83,138
Foreign banks		46,881	43,652	45,792	43,573
Local banks		2,640	6,798	-	-
Deposit substitutes		893	-	893	-
Others		4,528	-	-	-
		<u>P 204,431</u>	<u>P 209,744</u>	<u>P 196,174</u>	<u>P 202,867</u>

The breakdown of this account as to currency follows:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Foreign currencies	P 120,920	P 126,894	P 119,738	P 126,711
Philippine pesos	<u>83,511</u>	<u>82,850</u>	<u>76,436</u>	<u>76,156</u>
	<u>P 204,431</u>	<u>P 209,744</u>	<u>P 196,174</u>	<u>P 202,867</u>

The maturity profile of this account is presented below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
One to three months	P 24,640	P 47,961	P 18,906	P 41,098
More than three months to one year	88,333	15,701	87,110	15,701
More than one to three years	53,551	110,469	52,251	110,456
More than three years	<u>37,907</u>	<u>35,613</u>	<u>37,907</u>	<u>35,612</u>
	<u>P 204,431</u>	<u>P 209,744</u>	<u>P 196,174</u>	<u>P 202,867</u>

Bills payable bear annual interest rates of 0.30% to 4.50% in 2021, 0.52% to 6.25% in 2020 and 0.33% to 6.42% in 2019 (see Note 24).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 24):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>			
Fixed rate peso bonds	P 2,893	P 3,540	P 1,997
Foreign banks	356	791	1,873
Senior notes	2,257	2,012	1,772
Local banks	189	470	901
Deposit substitutes	1	-	-
Others	<u>43</u>	<u>34</u>	<u>472</u>
	<u>P 5,739</u>	<u>P 6,847</u>	<u>P 7,015</u>
<u>Parent Bank</u>			
Fixed rate peso bonds	P 2,893	P 3,540	P 1,997
Foreign banks	349	790	1,859
Senior notes	2,257	2,012	1,772
Others	<u>1</u>	<u>-</u>	<u>42</u>
	<u>P 5,500</u>	<u>P 6,342</u>	<u>P 5,670</u>

18.1 Senior Notes

The Parent Bank issued senior notes as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance	
				2021	2020
July 13, 2020	January 13, 2026	2.13%	600	P 30,591	P 28,733
February 20, 2018	February 20, 2025	4.16%	150	7,741	7,280
September 6, 2017	March 6, 2023	2.95%	676	34,721	32,649
October 24, 2016	October 24, 2021	2.63%	300	-	14,476
				P 73,053	P 83,138

The issuance of senior notes 2020 (nil in 2021) is part of the Parent Bank's liability management initiatives to tap longer-term funding sources to support its dollar-denominated projects and effectively refinance outstanding bonds.

18.2 Issuance of Fixed Rate Peso Bonds

On August 31, 2018, the BOD approved the establishment of a P100 billion Peso Bond Program. On February 1, 2020, the BOD approved an increase of P300 billion to the Parent Bank's Peso Bond Program.

The Parent Bank issued fixed rate peso bonds as follows:

Issue Date	Maturity Date	Coupon Interest	Principal Amount	Outstanding Balance	
				2021	2020
February 3, 2020	August 3, 2022	4.41%	40,100	P 40,256	P 40,132
July 3, 2020	April 3, 2022	3.13%	36,000	36,180	36,024
				P 76,436	P 76,156

18.3 Reconciliation of Liabilities Arising from Financing Activities

Presented below is the reconciliation of liabilities arising from financing activities both in 2021 and 2020, which includes both cash and non-cash changes.

BDO Unibank Group

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitute	BSP	Others	Total
Balance as of January 1, 2021	P 43,652	P 83,138	P 76,156	P 6,798	P -	P -	P -	P 209,744
Cash flows from financing activities								
Additional borrowings	63,472	-	-	51,916	941	910	10,620	127,859
Repayment of borrowings	(61,475)	(15,300)	-	(56,063)	(48)	(910)	(6,109)	(139,905)
Non-cash financing activities								
Interest amortization	(3)	61	280	(17)	-	-	17	338
Revaluation	1,235	5,154	-	6	-	-	-	6,395
Balance as of December 31, 2021	P 46,881	P 73,053	P 76,436	P 2,640	P 893	P -	P 4,528	P 204,431
Balance as of January 1, 2020	P 54,916	P 57,298	P 35,141	P 13,427	P -	P -	P 6,742	P 167,524
Cash flows from financing activities								
Additional borrowings	78,583	29,898	75,516	188,431	-	210	2,569	375,207
Repayment of borrowings	(87,643)	-	(35,141)	(194,994)	-	(210)	(9,311)	(327,299)
Non-cash financing activities								
Interest amortization	(55)	(27)	640	(32)	-	-	-	526
Revaluation	(2,149)	(4,031)	-	(34)	-	-	-	(6,214)
Balance as of December 31, 2020	P 43,652	P 83,138	P 76,156	P 6,798	P -	P -	P -	P 209,744
Balance as of January 1, 2019	P 55,406	P 59,437	P -	P 22,443	P -	P -	P 6,337	P 143,623
Cash flows from financing activities								
Additional borrowings	100,891	-	34,734	301,463	-	2,000	71,063	510,151
Repayment of borrowings	(99,269)	-	-	(310,332)	-	(2,000)	(70,650)	(482,251)
Non-cash financing activities								
Interest amortization	91	55	407	(87)	-	-	(8)	458
Revaluation	(2,203)	(2,194)	-	(60)	-	-	-	(4,457)
Balance as of December 31, 2019	P 54,916	P 57,298	P 35,141	P 13,427	P -	P -	P 6,742	P 167,524

Parent Bank

	Foreign Banks	Senior Notes	Fixed Rate Peso Bonds	Local Banks	Deposit Substitute	BSP	Others	Total
Balance as of January 1, 2021	P 43,573	P 83,138	P 76,156	P -	P -	P -	P -	P 202,867
Cash flows from financing activities								
Additional borrowings	59,811	-	-	-	941	10	-	60,762
Repayment of borrowings	(58,664)	(15,300)	-	-	(48)	(10)	-	(74,022)
Non-cash financing activities								
Interest amortization	(11)	61	280	-	-	-	-	330
Revaluation	1,083	5,154	-	-	-	-	-	6,237
Balance as of December 31, 2021	P 45,792	P 73,053	P 76,436	P -	P 893	P -	P -	P 196,174
Balance as of January 1, 2020	P 54,882	P 57,298	P 35,141	P -	P -	P -	P -	P 147,321
Cash flows from financing activities								
Additional borrowings	76,114	29,898	75,516	136	-	10	-	181,674
Repayment of borrowings	(85,267)	-	(35,141)	(109)	-	(10)	-	(120,527)
Non-cash financing activities								
Interest amortization	(57)	(27)	640	-	-	-	-	556
Revaluation	(2,099)	(4,031)	-	(27)	-	-	-	(6,157)
Balance as of December 31, 2020	P 43,573	P 83,138	P 76,156	P -	P -	P -	P -	P 202,867
Balance as of January 1, 2019	P 55,312	P 59,437	P -	P -	P -	P -	P 2,944	P 117,693
Cash flows from financing activities								
Additional borrowings	97,733	-	34,734	-	-	-	-	132,467
Repayment of borrowings	(96,108)	-	-	-	-	-	(2,936)	(99,044)
Non-cash financing activities								
Interest amortization	90	55	407	-	-	-	(8)	544
Revaluation	(2,145)	(2,194)	-	-	-	-	-	(4,339)
Balance as of December 31, 2019	P 54,882	P 57,298	P 35,141	P -	P -	P -	P -	P 147,321

19. SUBORDINATED NOTES PAYABLE

The Subordinated Notes (the Notes) represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation (PDIC), or any other person. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders.

The issuance of Series 2014-1 Notes was approved by the BOD on March 29, 2014 and was issued on December 10, 2014. The Notes had a principal amount of P10,000 and a maturity date of March 10, 2025. In its letter dated December 2, 2019, the BSP approved the Parent Bank's request to exercise its right of early redemption of the Notes on March 10, 2020. On said date, noteholders were paid the redemption price equal to the par value of the Notes plus all accrued and unpaid interest up to but excluding March 10, 2020 after which the Notes were considered redeemed and cancelled.

20. INSURANCE CONTRACT LIABILITIES

This account consists of:

	<u>2021</u>		<u>2020</u>
Legal policy reserves	P 60,438	P	55,439
Policy and contract claims payable	3,716		2,121
Policyholders' dividends	1,174		850
	<u>P 65,328</u>	P	<u>58,410</u>

The aging profile of this account is presented below.

	<u>2021</u>		<u>2020</u>
Within one year	P 3,375	P	852
More than one year	61,953		57,558
	<u>P 65,328</u>	P	<u>58,410</u>

Insurance contract liabilities may be analyzed as follows:

	<u>Insurance Contract Liabilities</u>		<u>Reinsurer's Share of Liabilities</u>		<u>Net</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Aggregate reserves for:						
Ordinary life policies	P 35,217	P 36,987	P -	P -	P 35,217	P 36,987
Variable unit-linked (VUL) contracts	24,627	17,884	-	-	24,627	17,884
Group life insurance policies	578	557	31	60	547	497
Accident and health policies	15	11	-	-	15	11
Policy and contract claims	3,716	2,121	59	32	3,657	2,089
Policyholders' dividends	1,175	850	-	-	1,175	850
	<u>P 65,328</u>	<u>P 58,410</u>	<u>P 90</u>	<u>P 92</u>	<u>P 65,238</u>	<u>P 58,318</u>

The movements in legal policy reserves are as follows:

	<u>Legal Policy Reserves</u>		<u>Reinsurer's Share of Liabilities</u>		<u>Net</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	P 55,439	P 40,232	P 60	P 54	P 55,379	P 40,178
Premiums received	18,384	15,255	92	118	18,292	15,137
Liability released for payments of death, maturity and surrender benefits and claims	(10,725)	(6,698)	(121)	(112)	(10,604)	(6,586)
Accretion of investment income or change in unit prices	2,584	979	-	-	2,584	979
Changes in valuation of interest rate	(5,686)	6,070	-	-	(5,686)	6,070
Foreign exchange adjustments	442	(399)	-	-	442	(399)
Balance at end of year	<u>P 60,438</u>	<u>P 55,439</u>	<u>P 31</u>	<u>P 60</u>	<u>P 60,407</u>	<u>P 55,379</u>

The movement in Legal policy reserves for the years ended December 31, 2021 and 2020 is recognized as part of Policy reserves, insurance benefits and claims under Other Operating Expenses in the BDO Unibank Group's statements of income (see Note 25).

Reinsurers' share of liabilities is recorded as part of Others under Other Resources in the BDO Unibank Group's statements of financial position (see Note 15).

21. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2021	2020	2021	2020
Accrued expenses		P 17,089	P 18,214	P 16,124	P 17,347
Outstanding acceptances payable		16,972	5,600	16,972	5,600
Manager's checks		13,788	17,343	13,682	17,180
Accounts payable		13,572	20,293	10,144	17,563
Lease liabilities	13.2	12,087	11,701	11,800	11,551
Bills purchased – contra		6,039	7,402	6,039	7,402
Derivatives with negative fair values	10.1, 27(d)(i)(4)	5,742	4,129	2,462	2,001
Retirement benefit obligation	26.2	3,800	-	3,650	-
Premium on deposit fund		3,641	3,332	-	-
Withholding taxes payable		2,093	1,963	1,922	1,812
Lease deposits		745	384	124	127
Due to BSP and Treasurer of the Philippines		727	526	723	522
Capitalized interest and other charges		193	464	151	417
Due to principal		97	363	-	-
Others	16, 34.1.2	11,961	11,860	10,863	10,649
		P 108,546	P 103,574	P 94,656	P 92,171

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Within one year	P 88,339	P 84,345	P 80,340	P 77,156
More than one year	20,207	19,229	14,316	15,015
	P 108,546	P 103,574	P 94,656	P 92,171

The liability for unredeemed reward points amounting to P3,677 and P4,152 as of December 31, 2021 and 2020, respectively, presented as part of Accrued expenses above, represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.18).

Others include margin deposits, life insurance deposits, cash letters of credit and other miscellaneous liabilities.

Interest expense in relation to lease liabilities amounted to P817, P690 and P827 for the BDO Unibank Group and P807, P675 and P822 for the Parent Bank in 2021, 2020 and 2019, respectively, which are presented as part of Interest expense on finance lease liabilities under Interest expense account in the statements of income (see Note 24).

Interest expense on certain liabilities amounting to P78, P106 and P117 in 2021, 2020 and 2019, respectively, for the BDO Unibank Group and P10, P18 and P28 in 2021, 2020 and 2019, respectively, for the Parent Bank which are presented as part of Interest expense on bills payable and other borrowings under Interest Expense account in the statements of income (see Note 24).

Impairment losses (recoveries) recognized for off-books account amounted to P28, P68 and (P67) for both the BDO Unibank Group and the Parent Bank in 2021, 2020 and 2019, respectively. The accumulated impairment losses as of December 31, 2021, 2020 and 2019 amounting to P289, P317 and P114, respectively, for both the BDO Unibank Group and the Parent Bank are recorded as part of Others under Other Liabilities account in the statements of financial position (see Note 16).

22. EQUITY

22.1 Capital Stock

Capital stock consists of the following:

	Number of Shares		Amount	
	2021	2020	2021	2020
<u>Preferred shares – P10 par value</u>				
Authorized				
Balance at end of year	<u>1,000,000,000</u>	1,000,000,000	<u>P 10,000</u>	P 10,000
Issued, fully paid and outstanding	<u>515,000,000</u>	515,000,000	<u>P 5,150</u>	P 5,150
<u>Common shares – P10 par value</u>				
Authorized				
Balance at end of year	<u>5,500,000,000</u>	5,500,000,000	<u>P 55,000</u>	P 55,000
Issued, fully paid and outstanding				
Balance at beginning of year	4,384,227,915	4,381,370,334	P 43,842	P 43,814
Issued during the year	<u>1,291,100</u>	2,857,581	<u>13</u>	28
Balance at end of year	<u>4,385,519,015</u>	4,384,227,915	<u>P 43,855</u>	P 43,842

22.1.1 Preferred Shares

The following are the features of the BDO Unibank Group and the Parent Bank's preferred shares:

- (a) Perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A shares;
- (b) Convertible to common shares at the option of the holder after five years from the issue date or at the option of BDO Unibank Group at any time after issue date; and,
- (c) Dividend rate is 6.50% per annum of the par value.

22.1.2 Common Shares

The Parent Bank's application for listing of its common shares was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

On September 24, 2016, the Parent Bank's BOD authorized the Parent Bank to raise P60,000 in additional core capital through a stock rights offer. The BSP and the PSE approved the transaction on November 23, 2016 and December 14, 2016, respectively.

On January 3, 2017, the Parent Bank fixed the final terms for the stock rights offer which entitled eligible shareholders to subscribe to one common share for every 5.095 common shares held as of January 5, 2017 record date at an offer price of P83.75 per rights share. The offer period ran from January 16, 2017 to January 24, 2017.

Following the close of the offer period, the Parent Bank successfully completed its stock rights offer and 716,402,886 common shares were issued and subsequently listed on the PSE on January 31, 2017. The issuance resulted in recognition of Additional Paid-in Capital amounting to P52,662, net of related transaction costs totaling to P172. The fresh capital will support the Parent Bank's medium-term growth objectives amid the country's favorable macroeconomic prospects and provide a comfortable buffer over higher capital requirements with the forthcoming imposition of DSIB surcharge.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code and other issuances, is as follows:

<u>Transaction</u>	<u>Subscriber</u>	<u>Issue Date</u>	<u>Number of Shares Issued</u>
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P.	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
Private placement	Sybase Equity Investments Corp.	July 20, 2015	64,499,890
Stock options	Various employees	June 6, 2016 to December 31, 2016	4,592,430
Stock options	Various employees	January 3, 2017 to December 27, 2017	2,604,020
Stock rights	Various employees	January 31, 2017	716,402,886
Stock rights	Various employees	January 31, 2018	5,073,510
Stock options	Various employees	January 7, 2019 to December 26, 2019	7,322,270
Stock options	Various employees	January 6, 2020 to December 28, 2020	2,857,581
Stock options	Various employees	January 15, 2021 to December 15, 2021	1,291,100
			<u>4,385,519,015</u>

As of December 31, 2021 and 2020, there are 12,390 and 12,442 holders, respectively, of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P120.70 and P106.80 per share as of December 31, 2021 and December 29, 2020, respectively, (the last trading day in 2021 and 2020).

22.2 BDO American Depositary Receipt Program

On April 18, 2013, the Parent Bank launched its Sponsored Level 1 American Depositary Receipt (ADR) Program by which negotiable securities representing underlying BDO common shares can be traded in the U.S. over-the-counter (OTC) market. This provides flexibility for U.S. investors to trade BDO common shares in their time zone and settle their transactions locally. It is meant to tap the pool of U.S. ADR investors, enhance visibility and global presence and diversify and broaden the Parent Bank's shareholder base. ADRs are quoted and traded in U.S. dollars, and cash dividends received on the underlying shares are paid to investors also in U.S. dollars. The ADR ratio for BDO's sponsored Level 1 ADR Program is 1:10, with each ADR representing ten underlying BDO common shares.

The sponsored Level 1 ADR Program does not necessitate the issuance of new shares as ADRs are traded on the U.S. OTC/secondary market using existing shares, in contrast to the sponsored Level II ADR or sponsored Level III ADR where shares are fully listed on a recognized U.S. exchange (e.g., NYSE, NASDAQ). As such, a Level 1 ADR is not a capital raising transaction, to differentiate it from Level III ADR, which allows the issuer to raise capital through a public offering of ADRs in the U.S.

The sponsored Level 1 ADR is exempt, under U.S. SEC Rule 12g3-2(b), from SEC registration, disclosure requirements and reporting obligations, including Sarbanes-Oxley and U.S. generally accepted accounting principles.

The Parent Bank appointed Deutsche Bank (DB) as the exclusive depository of ADRs for a period of five years. As depository bank, DB is responsible for the issuance and cancellation, as well as the registration of the ADRs; custody of the underlying BDO common shares and maintenance of the register of holders; the distribution of dividends; and execution of corporate actions and services to the Issuer (i.e., BDO)/Investor/Broker. In October 2018, the Parent Bank renewed the appointment of DB as the exclusive depository of ADRs for another five years.

As of December 31, 2021 and 2020, 442,787 and 595,467 ADRs valued at US\$11,046,429 and US\$13,243,186 (absolute amount), respectively, remained outstanding (computed using ADR closing price of US\$24.95/share and US\$22.24/share, respectively).

22.3 Surplus Free

The details of the Parent Bank's cash dividend distributions are as follows:

<u>Date Declared and Approved</u>	<u>Common shares dividend</u>		<u>Record Date</u>	<u>Date Paid/Payable</u>	
	<u>Per Share</u>	<u>Total Amount</u>			
February 23, 2019	P	0.30 P	1,313	March 12, 2019	March 25, 2019
May 25, 2019		0.30	1,313	June 11, 2019	June 24, 2019
August 31, 2019		0.30	1,314	September 17, 2019	September 30, 2019
December 7, 2019		0.30	1,314	December 23, 2019	December 27, 2019
February 27, 2020		0.30	1,315	March 13, 2020	March 27, 2020
May 30, 2020		0.30	1,315	June 17, 2020	June 29, 2020
August 29, 2020		0.30	1,315	September 15, 2020	September 28, 2020
December 5, 2020		0.30	1,316	December 22, 2020	December 29, 2020
February 24, 2021		0.30	1,315	March 15, 2021	March 25, 2021
May 29, 2021		0.30	1,315	June 16, 2021	June 25, 2021
August 27, 2021		0.30	1,316	September 15, 2021	September 24, 2021
December 4, 2021		0.30	1,316	December 22, 2021	December 29, 2021

<u>Date Declared and Approved</u>	<u>Preferred shares dividend</u>		<u>Date Paid/ Payable</u>
	<u>Per Annum</u>	<u>Total Amount</u>	
January 26, 2019	6.50%	P 339	March 8, 2019
February 1, 2020	6.50%	339	February 21, 2020
January 30, 2021	6.50%	340	February 22, 2021

On July 31, 2019, the Parent Bank entered into a deed of sale of certain parcel of land to a third party for a total consideration of P119. The related revaluation increment on land arose from previous business combination amounting to P76 was subsequently transferred to Surplus Free account in the 2019 statement of changes in equity.

22.4 Surplus Reserves

The Parent Bank appropriated its Surplus Free amounting to P44 in 2021, P40 for 2020 and nil in 2019 representing insurance fund on losses due to fire, robbery, and other cash losses. This was approved by the Parent Bank's President. BDO Network appropriated its Surplus Free amounting to P3, P2 and P5 in 2021, 2020 and 2019, respectively, representing insurance fund on losses due to fire, robbery and other cash losses, which was approved by its Chairman.

The BDO Unibank Group and the Parent Bank appropriated its Surplus Free for impairment of general loan loss portfolio amounting to P1,337 and P1,250 in 2021, (P830) and (P827) in 2020 and P1,543 and P1,563 in 2019, respectively. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2021, 2020 and 2019 amounted to P13,430, P12,093 and P12,923, respectively, for BDO Unibank Group and P13,166, P11,916 and P12,743, respectively, for the Parent Bank. This appropriation was prescribed by BSP and was recognized as part of Surplus Reserves account.

In compliance with BSP regulations, 10% of BDO Unibank Group and the Parent Bank's profit from trust business amounting to P263, P272 and P272 in 2021, 2020 and 2019, respectively, and P263, P223 and P189 in 2021, 2020 and 2019, respectively, is appropriated to surplus reserves (see Note 28).

On June 10, 2020 and July 2, 2020, the BOD of BDO Securities approved the appropriation of P60 as additional capital requirements and the reversal of the previously approved appropriation for cash dividends amounting to P200, respectively.

Also, included in the 2021, 2020 and 2019 surplus reserves are the appropriations made by BDO Securities and Armstrong Securities, Inc. totaling P2, P5 and P4 respectively, as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/ Ratio for Broker Dealers*. On May 26, 2020, the BOD of BDO Nomura approved the reversal of the Surplus Reserves amounting to P9 back to Surplus Free.

22.4.1 ESOP

For options that were exercised in 2021 and 2020, BDO Unibank Group issued new common shares of 1,291,100 and 2,857,581, respectively, from its authorized capital stock (see Note 22).

Set out below are summaries of number of options vested under the plan:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year	6,498,024	12,539,677	4,530,459	10,405,980
Vested during the year	14,118,934	3,331,902	13,552,572	2,921,302
Forfeited during the year	(46,800)	(260,558)	(29,250)	(260,558)
Expired during the year	(373,000)	(249,700)	(337,500)	(227,700)
Exercised during the year	(5,246,795)	(8,863,297)	(4,730,983)	(8,308,565)
Balance at end of year	<u>14,950,363</u>	<u>6,498,024</u>	<u>12,985,298</u>	<u>4,530,459</u>

The weighted average exercise price was P109.97 and P104.08 for the years ended December 31, 2021 and 2020, respectively.

In 2019, the Parent Bank has changed its strategy in settling the stock options exercised through issuance of primary shares. Consequently, the previously recognized liability, which amounted to P860, was accordingly transferred to Surplus Reserve. Share options expensed amounted to P252, P316 and P890 in 2021, 2020 and 2019, respectively.

The fair value of the option granted was estimated using a variation of the Black-Scholes valuation model that takes into account factors specific to the ESOP. The following principal assumptions were used in the valuation:

Average option life	5 years
Average share price at grant date	P 101.80
Average exercise price at grant date	P 93.25
Average fair value of options at grant date	P 34.77
Average standard deviation of share price returns	34.94%
Average dividend yield	1.20%
Average risk-free investment rate	2.75%

The underlying expected volatility was determined by reference to historical prices of the Parent Bank's shares over a period of one year.

23. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group		
		2021	2020	2019
Loans and other receivables	11, 27	P 124,548	P 138,736	P 142,908
Trading and investment securities:				
At amortized cost	10.3	12,410	10,424	10,415
At FVOCI	10.2	6,215	5,546	5,607
At FVTPL	10.1	92	122	197
Due from BSP and other banks	8, 9	1,554	2,158	1,381
Others		60	45	64
		<u>P 144,879</u>	<u>P 157,031</u>	<u>P 160,572</u>
	Notes	Parent Bank		
		2021	2020	2019
Loans and other receivables	11, 27	P 119,566	P 134,329	P 138,521
Trading and investment securities at:				
At amortized cost	10.3	11,633	9,689	9,642
At FVOCI	10.2	3,939	3,440	3,550
At FVTPL	10.1	59	84	87
Due from BSP and other banks	8, 9	1,533	2,120	1,234
Others		42	35	47
		<u>P 136,772</u>	<u>P 149,697</u>	<u>P 153,081</u>

24. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group		
		2021	2020	2019
Deposit liabilities	17, 27	P 6,952	P 15,521	P 32,047
Bills payable and other borrowings	18, 19, 21, 26.2	5,764	7,120	7,807
Finance lease liabilities	13.2, 21	817	690	827
		<u>P 13,533</u>	<u>P 23,331</u>	<u>P 40,681</u>

	Notes	Parent Bank		
		2021	2020	2019
Deposit liabilities	17, 27	P 6,644	P 15,196	P 31,384
Bills payable and other borrowings	18, 19, 21, 26.2	5,455	6,529	6,375
Finance lease liabilities	13.2, 21	807	675	822
		<u>P 12,906</u>	<u>P 22,400</u>	<u>P 38,581</u>

25. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	BDO Unibank Group		
		2021	2020	2019
Service charges, fees and commissions	27	P 30,485	P 24,822	P 31,722
Insurance premiums		18,136	15,009	14,764
Trust fees	28	4,364	3,811	3,532
Foreign exchange gains	10.1	3,621	1,748	3,821
Income from assets sold or exchanged	14	1,275	1,169	1,131
Rental	14	1,269	1,430	1,526
Trading gains - net	10.1	220	5,563	1,357
Dividends	10.1	207	551	560
Miscellaneous - net		1,777	1,107	1,698
		<u>P 61,354</u>	<u>P 55,210</u>	<u>P 60,111</u>

	Notes	Parent Bank		
		2021	2020	2019
Service charges, fees and commissions	27	P 25,293	P 21,152	P 27,707
Share in net income of subsidiaries and associates	15.2	6,350	3,839	6,046
Trust fees	28	3,477	3,035	2,727
Foreign exchange gains		3,273	1,591	3,715
Income from assets sold or exchanged	14	1,174	1,097	1,047
Rental	14	482	514	523
Trading gains (losses) - net	10.1	(349)	5,230	290
Dividends		19	258	180
Miscellaneous - net		916	538	910
		<u>P 40,635</u>	<u>P 37,254</u>	<u>P 43,145</u>

Other operating expenses consist of the following:

	Notes	BDO Unibank Group		
		2021	2020	2019
Compensation and benefits	26.1	P 41,744	P 37,392	P 35,385
Fees and commissions		17,140	14,994	18,826
Policy reserves, insurance benefits and claims	20	15,633	13,136	10,775
Taxes and licenses	14	11,180	12,703	14,106
Occupancy	13, 15.7			
	27	9,222	9,572	9,680
Insurance		5,828	5,551	5,255
Security, clerical, messengerial and janitorial		3,851	3,674	3,993
Advertising		2,586	2,621	4,260
Repairs and maintenance		1,982	1,600	1,437
Representation and entertainment		1,806	1,877	2,163
Amortization of computer software	15.7	1,342	734	546
Information technology		1,136	919	869
Power, light and water		1,130	1,011	1,206
Travelling		883	1,034	1,344
Litigation on assets acquired		773	601	548
Supplies		731	767	1,001
Telecommunication		560	616	661
Freight		378	257	402
Miscellaneous	15.6	1,970	3,581	2,192
		<u>P 119,875</u>	<u>P 112,640</u>	<u>P 114,649</u>
		Parent Bank		
	Notes	2021	2020	2019
Compensation and benefits	26.1	P 35,786	P 32,525	P 30,777
Fees and commissions		16,600	14,575	18,305
Taxes and licenses	14	10,009	11,631	12,904
Occupancy	13, 15.7			
	27	7,963	8,199	8,278
Insurance		5,715	5,457	5,158
Security, clerical, messengerial and janitorial		3,522	3,382	3,723
Advertising		2,509	2,495	4,199
Repairs and maintenance		1,855	1,487	1,296
Representation and entertainment		1,573	1,637	1,913
Amortization of computer software	15.7	1,291	696	502
Information technology		1,113	885	836
Power, light and water		1,047	912	1,108
Litigation on assets acquired		766	592	535
Travelling		619	778	1,060
Supplies		606	676	883
Telecommunication		456	523	552
Freight		339	241	375
Miscellaneous	15.6	1,844	3,376	1,933
		<u>P 93,613</u>	<u>P 90,067</u>	<u>P 94,337</u>

26. COMPENSATION AND BENEFITS

26.1 Compensation and Benefits

Expenses recognized for compensation and benefits (see Note 25) are presented below.

	Notes	BDO Unibank Group		
		2021	2020	2019
Salaries and wages		P 23,914	P 22,206	P 21,065
Bonuses		7,876	7,269	6,712
Retirement - defined benefit plan	26.2	2,421	2,097	1,819
Social security costs		1,254	1,013	884
Employee stock option plan	26.3	273	354	994
Other benefits		6,006	4,453	3,911
	25	P 41,744	P 37,392	P 35,385
	Notes	Parent Bank		
		2021	2020	2019
Salaries and wages		P 20,409	P 19,147	P 18,097
Bonuses		6,942	6,424	5,988
Retirement - defined benefit plan	26.2	1,825	1,850	1,585
Social security costs		1,062	863	752
Employee stock option plan	26.3	252	316	890
Other benefits		5,296	3,925	3,465
	25	P 35,786	P 32,525	P 30,777

26.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

The BDO Unibank Group and the Parent Bank maintain a fully funded, multi-employer and tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group as trustee covering all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provided for an early retirement at age of 50 with a minimum of ten years of credited service and late retirement up to age 65. Normal retirement benefit is an amount equivalent to a percentage ranging from 50% to 200% of plan salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020.

The amounts of Retirement assets and benefit obligation recognized under Other Assets accounts (see Note 15) and Other Liabilities accounts (see Note 21), respectively, in the statements of financial position are determined as follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Present value of the DBO	P 42,440	P 34,288	P 38,325	P 31,318
Fair value of plan assets	(38,647)	(35,650)	(34,675)	(32,582)
Deficiency of plan assets	3,793	(1,362)	3,650	(1,264)
Effect of asset ceiling	<u>7</u>	<u>62</u>	<u>-</u>	<u>47</u>
Retirement (assets)/ benefit obligation	<u>P 3,800</u>	<u>(P 1,300)</u>	<u>P 3,650</u>	<u>(P 1,217)</u>

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Balance at beginning of year	P 34,288	P 33,937	P 31,318	P 31,189
Benefits paid by the plan	(3,232)	(1,547)	(3,036)	(1,482)
Current service cost	2,040	2,097	1,825	1,850
Interest expense	1,323	1,777	1,215	1,631
Past service cost	381	-	-	-
Transfer from the plan	-	(9)	(49)	(95)
Remeasurements:				
Actuarial losses (gains) arising from changes in:				
- experience adjustments	4,136	1,041	3,534	990
- financial assumption	3,173	(3,008)	3,464	(2,765)
- demographic assumptions	<u>331</u>	<u>-</u>	<u>54</u>	<u>-</u>
Balance at end of year	<u>P 42,440</u>	<u>P 34,288</u>	<u>P 38,325</u>	<u>P 31,318</u>

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Balance at beginning of year	P 35,650	P 30,633	P 32,582	P 27,986
Contributions paid into the plan	4,286	5,682	3,500	5,294
Interest income	1,378	1,709	1,272	1,561
Benefits paid by the plan	(3,231)	(1,547)	(3,037)	(1,482)
Transfer to/(from) the plan	-	2	(49)	(95)
Remeasurement loss - return on plan assets (excluding amounts included in net interest)	<u>564</u>	<u>(829)</u>	<u>407</u>	<u>(682)</u>
Balance at end of year	<u>P 38,647</u>	<u>P 35,650</u>	<u>P 34,675</u>	<u>P 32,582</u>

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Debt securities:				
Government bonds	P 19,400	P 18,092	P 17,407	P 16,656
Corporate bonds	7,726	10,032	6,932	9,240
UITFs	8,919	6,562	8,003	6,187
Equity securities	881	814	790	355
Loans and other receivables	499	7	447	7
Cash and cash equivalents	74	9	66	7
Other properties	<u>1,148</u>	<u>134</u>	<u>1,030</u>	<u>130</u>
	<u>P 38,647</u>	<u>P 35,650</u>	<u>P 34,675</u>	<u>P 32,582</u>

Actual returns on plan assets were P1,943 and P1,679 in 2021 and P880 and P879 in 2020 in the BDO Unibank Group and the Parent Bank's financial statements, respectively.

Certain plan assets include BDO Unibank Group's own financial instruments [see Note 27(c)].

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

The components of amounts recognized in profit or loss and in other comprehensive income of the BDO Unibank Group and the Parent Bank in respect to the defined benefit plan is as follows:

	<u>BDO Unibank Group</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Recognized in profit or loss:</i>			
Current service costs	P 2,040	P 2,097	P 1,819
Past service costs	381	-	-
Interest expense (income)	(53)	68	156
	<u>P 2,368</u>	<u>P 2,165</u>	<u>P 1,975</u>
<i>Recognized in other comprehensive income, net of tax (see Note 31.1):</i>			
Actuarial losses (gains) arising from change in:			
- experience adjustments	P 3,102	P 729	P 780
- demographic assumptions	248	-	(388)
- financial assumptions	2,379	(2,106)	1,706
Remeasurement losses (gains) arising from:			
- return on plan assets (excluding amounts included in net interest expense)	(423)	580	262
- changes in the effect of the asset ceiling	(43)	33	(5)
	<u>5,263</u>	<u>(764)</u>	<u>2,355</u>
Effect of change in income tax rate	<u>750</u>	-	-
	<u>P 6,013</u>	<u>(P 764)</u>	<u>P 2,355</u>

	Parent Bank		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Recognized in profit or loss:</i>			
Current service costs	P 1,825	P 1,850	P 1,585
Interest expense (income)	(55)	70	158
	<u>P 1,770</u>	<u>P 1,920</u>	<u>P 1,743</u>
<i>Recognized in other comprehensive income, net of tax (see Note 31.1):</i>			
Actuarial losses (gains) arising from change in:			
– experience adjustments	P 2,651	P 693	P 578
– demographic assumptions	40	-	-
– financial assumptions	2,599	(1,935)	1,403
Remeasurement losses (gains) arising from:			
– return on plan assets (excluding amounts included in net interest expense)	(305)	477	259
– changes in the effect of the asset ceiling	(37)	33	-
	4,948	(732)	2,240
Effect of change in income tax rate	715	-	-
	5,663	(732)	2,240
Share in actuarial losses (gains) of subsidiaries and associates	341	(19)	88
	<u>P 6,004</u>	<u>(P 751)</u>	<u>P 2,328</u>

Current service costs are presented as part of Compensation and benefits under Other Operating Expenses account (see Note 25) while interest expense or income are presented or netted against Interest Expense account (see Note 24) in the statements of income of the BDO Unibank Group and the Parent Bank.

Amounts recognized in other comprehensive income were included within the items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rates	5.03% - 5.04%	3.87% - 3.89%	5.03%	3.88%
Expected rate of salary increases	2.0% - 11.7%	1.25% - 11.00%	4.0% - 11.7%	2.52% - 11.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 23.5 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the BDO Unibank Group and the Parent Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in UITF, debt and equity instruments, cash and cash equivalents, and loans and receivables. Due to the long-term nature of plan obligation, a level of continuing debt securities is an appropriate element of the BDO Unibank Group's long-term strategy to manage the plans effectively.

(ii) *Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) *Sensitivity Analysis*

The following table below and in the succeeding page summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit asset as of December 31, 2021 and 2020.

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>BDO Unibank Group</u>			
<u>December 31, 2021</u>			
Discount rate	+/-1%	(P 1,850)	P 2,051
Salary increase rate	+/-1%	1,990	(1,835)
<u>December 31, 2020</u>			
Discount rate	+/-1%	(P 1,056)	P 1,156
Salary increase rate	+/-1%	1,134	(1,059)

Impact on Retirement Benefit Obligation
Change in Assumption Increase in Assumption Decrease in Assumption

Parent Bank

December 31, 2021

Discount rate	+/-1%	(P	1,474)	P	1,601
Salary increase rate	+/-1%		1,556	(	1,463)

December 31, 2020

Discount rate	+/-1%	(P	802)	P	849
Salary increase rate	+/-1%		841	(	810)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, BDO Unibank Group through its Compensation Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds or UITFs) with maturities that match the benefit payments as they fall due and in the appropriate currency. BDO Unibank Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2021 and 2020 consists of debt instruments and UITFs, although the BDO Unibank Group and the Parent Bank also invest in cash and cash equivalents, equity instruments and properties. The debt instruments include government bonds and corporate bonds.

There has been no change in the BDO Unibank Group and the Parent Bank's strategies to manage its risks from previous periods.

(iii) *Funding Arrangements and Expected Contributions*

As of December 31, 2021, the plan of the BDO Unibank Group and the Parent Bank is underfunded by P3,800 and P3,650, respectively based on the latest actuarial valuation report. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The BDO Unibank Group and the Parent Bank expect to pay P7,535 and P6,544, respectively, as contributions to retirement benefit plans in 2022.

The expected maturity of undiscounted expected benefits payments of BDO Unibank Group and the Parent Bank from the plan for the next ten years is presented as follows:

	<u>BDO Unibank Group</u>	<u>Parent Bank</u>
Between one to five years	P 40,642	P 38,177
Between six to ten years	<u>23,249</u>	<u>20,721</u>
	<u>P 63,891</u>	<u>P 58,898</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 3.0 to 14.5 years for the BDO Unibank Group and 4.9 years for the Parent Bank.

26.3 ESOP

BDO Unibank Group's ESOP expense includes the amounts recognized by the Parent Bank and its subsidiaries over the vesting period. In 2021 and 2020, vested shares totaled 14,118,934 shares and 3,331,902 shares, respectively, for BDO Unibank Group, and 13,552,572 shares 2,921,302 shares, respectively, for Parent Bank.

The ESOP expense, included as part of Compensation and benefits under Other Operating Expenses in the BDO Unibank Group's statements of income, amounted to P273, P354 and P994 in 2021, 2020 and 2019, respectively, and in the Parent Bank's statements of income, amounted to P252, P316 and P890, respectively (see Note 26.1).

27. RELATED PARTY TRANSACTIONS

The Parent Bank created a Related Party Transactions Committee composed of an independent director and a non-executive director, as of December 31, 2021. The said committee exercises oversight role to ensure bank compliance with BSP regulations on related party transactions.

The summary of BDO Unibank Group's significant transactions with its related parties as of December 31, 2021 and 2020 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2021	2020	2019	2021	2020
DOSRI Loans	27(a)					
Stockholders		P 24,854	P 3,636	P 23,713	P 34,266	P 22,892
Related Parties under						
Common Ownership		12	24	75	-	419
Directors		3	3	-	-	91
Officers and Employees		1,807	1,418	1,802	2,068	1,969
Deposit Liabilities	27(b)					
Stockholders		468,175	390,344	576,553	19,852	20,288
Related Parties under						
Common Ownership		2,670	5,099	6,568	227	338
Directors		443	451	-	54	52
Officers and Employees		222	82	433	1	1
Other Transactions with Associates	27(d)					
Loans and Advances		480	500	2,820	8,261	8,225
Interest Income		251	359	509	58	57
Related Parties Under Common Ownership	27(d)					
Right-of-use Asset		1,677	378	833	3,904	2,417
Lease Liabilities		1,474	285	200	2,816	1,710
Depreciation Expense		184	39	655	524	330
Interest Expense		77	3	142	178	68
Key Management Personnel Compensation	27(d)	1,543	1,589	1,653	-	-
Retirement Plan	27(c)	160	238	74	8,351	6,605

The summary of the Parent Bank's significant transactions with its related parties as of December 31, 2021 and 2020 and for each of the three years ended are as follows:

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2021	2020	2019	2021	2020
DOSRI Loans	27(a)					
Stockholders		P 24,854	P 3,636	P 23,713	P 34,266	P 22,892
Related Parties under						
Common Ownership		12	24	75	-	419
Directors		3	3	-	-	91
Officers and Employees		1,805	1,411	1,798	2,065	1,964
Deposit Liabilities	27(b)					
Stockholders		468,175	390,344	576,553	19,852	20,288
Related Parties under						
Common Ownership		2,324	4,152	6,039	111	168
Directors		443	451	-	54	52
Officers and Employees		222	82	433	1	1

Related Party Category	Note	Amounts of Transaction			Outstanding Balance	
		2021	2020	2019	2021	2020
Other Transactions with Subsidiaries						
	27(d)					
Loans and Advances	P	25,011	P 37,123	P 48,034	P 2,912	P 5,144
Derivative Assets		992	-	-	31	-
Derivative Liabilities		612	1,471	1,033	-	27
Deposit Liabilities	(	572)	(1,881)	1,257	4,769	4,197
Accounts Payable		-	(2)	(7)	1	1
Miscellaneous Assets		117	259	(3)	142	259
Miscellaneous Liabilities	(	28)	-	(2)	-	2
Interest Income		119	238	231	3	11
Rent Income		136	132	124	-	-
Service Fees		874	796	792	-	-
Interest Expense		5	25	83	-	-
Right-of-use Asset		-	-	-	97	104
Lease Liabilities	(	12)	(11)	(10)	113	118
Depreciation/Amortization		14	13	13	-	-
Interest Expense – Finance						
Lease Payment Payable		7	7	8	-	-
Trust Fees		120	107	95	-	-
Miscellaneous Expense		117	123	-	-	-
Insurance Expense		42	40	39	-	-
Trading Gain/Loss	(	20)	(90)	(83)	-	-
Miscellaneous Income		49	3	-	-	-
Repairs and Maintenance		1	1	1	-	-
Fees and Commission		140	149	109	-	-
Other Transactions with Associates						
	27(d)					
Loans and Advances		480	500	2,820	8,261	8,043
Interest Income		251	344	494	58	57
Related Parties under Common Ownership						
	27(d)					
Right-of-use Asset		1,684	378	833	3,911	2,417
Lease Liabilities		1,480	285	200	2,822	1,710
Depreciation Expense		185	39	655	525	330
Interest Expense		78	3	142	179	68
Key Management Personnel						
	27(d)					
Compensation		905	1,006	1,107	-	-
Retirement Plan						
	27(c)					
		160	238	74	8,349	6,603

In the ordinary course of business, the BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below and in the succeeding pages.

(a) *Loans to Related Parties*

Under existing policies of the BDO Unibank Group and the Parent Bank, these loans bear interest rates ranging from 0.00% to 9.00% per annum in 2021, 2020 and 2019, which are substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the BDO Unibank Group and the Parent Bank.

The total DOSRI loans of the BDO Unibank Group and the Parent Bank include loans to officers under the BDO Unibank Group and Parent Bank's fringe benefit program. Secured DOSRI loans are collateralized by publicly-listed shares, hold-out on deposits, chattels and real estate mortgages and are payable within seven days to 20 years.

The total loan releases and collections in 2021 amounted to P26,676 and P15,713 for the BDO Unibank Group and P26,674 and P15,709 for the Parent Bank, respectively. The total loan releases and collections in 2020 amounted to P5,081 and P10,265 for the BDO Unibank Group and P5,074 and P10,257 for the Parent Bank, respectively. The total loans collections and releases in 2019 amounted to P25,590 and P49,217 for the BDO Unibank Group and P25,586 and P49,214 for the Parent Bank, respectively.

(b) *Deposits from Related Parties*

The total deposits made by the related parties amounted to P471,510, P395,976 and P583,554 in 2021, 2020 and 2019 for the BDO Unibank Group, and P471,164, P395,029 and P583,025 in 2021, 2020 and 2019 for the Parent Bank, respectively, and bearing interest rates range of 0.00% to 4.53% in 2021, 2020 and 2019. The related interest expense from deposits amounted to P795, P860 and P1,611 in 2021, 2020 and 2019, respectively (see Note 24).

(c) *Transactions with Retirement Plan*

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group as of December 31, 2021 and 2020 and for each of the three years ended are as follows:

<u>Related Party Category</u>	<u>Amounts of Transaction</u>			<u>Outstanding Balance</u>	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 7	P 10
Investment in shares of					
BDO Unibank, Inc.	-	-	-	48	16
BDO Leasing	-	-	-	2	2
Deposit liabilities					
(including LTNCDs)					
BDO Unibank, Inc.	-	-	-	8,294	6,577
Trading gain					
BDO Unibank, Inc.	158	235	65	-	-
Interest expense					
BDO Unibank, Inc.	-	1	7	-	-
Rental income					
BDO Unibank, Inc.	2	2	2	-	-

The BDO Unibank Group's retirement fund has transactions directly and indirectly with the Parent Bank as of December 31, 2021 and 2020 and for each of the three years ended are as follows:

<u>Related Party Category</u>	<u>Amounts of Transaction</u>			<u>Outstanding Balance</u>	
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>
Loans to employees					
BDO Unibank, Inc.	P -	P -	P -	P 7	P 10
Investment in shares of –					
BDO Unibank, Inc.	-	-	-	48	16
Deposit liabilities (including LTNCDs)					
BDO Unibank, Inc.	-	-	-	8,294	6,577
Trading gain					
BDO Unibank, Inc.	158	235	65	-	-
Interest expense					
BDO Unibank, Inc.	-	1	7	-	-
Rental income					
BDO Unibank, Inc.	2	2	2	-	-

Details of the contributions of the BDO Unibank Group and the Parent Bank, and benefits paid out by the plan to the employees are presented in Note 26.

(d) *Other Transactions with Related Parties*

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties are shown in the section that follows. These transactions are generally unsecured and payable in cash, unless otherwise stated.

(i) Transactions with and between subsidiaries have been eliminated in the BDO Unibank Group's financial statements. Significant transactions with subsidiaries are as follows:

(1) *Loans and Advances to Subsidiaries*

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured, payable in cash and without fixed repayment terms. The total advances granted and collected amounted to P111 and P28, P46 and P44, and P25 and P79, in 2021, 2020 and 2019, respectively. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables in the Parent Bank's statements of financial position amounted to P111 and P27 as of December 31, 2021 and 2020, respectively (see Note 11).

The Parent Bank also grants both secured and unsecured interest-bearing loans to subsidiaries with outstanding balance of P2,801 and P5,117 as of December 31, 2021 and 2020, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position (see Note 11). The total loans granted amounted to P24,900, P37,076 and P48,009 while total loans collected amounted to P27,215, P35,593 and P50,183 for 2021, 2020 and 2019, respectively. These loans are payable in cash with a term between seven days to five years. Interest income recognized on these is presented as part of Interest Income in the Parent Bank's statements of income (see Note 23). Interest rate on these loans ranges from 2.50% to 3.50%, 2.27% to 5.75% and 2.50% to 6.00% per annum in 2021, 2020 and 2019, respectively.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice, at least 30 calendar days prior to the date intended for termination. The services fees are payable in cash at the beginning of each month and shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by the subsidiaries to the Parent Bank. The total service fees are presented as part of Service charges, fees and commissions under Other Operating Income account in the Parent Bank's statements of income (see Note 25). There are no outstanding balance arising from these transactions as of December 31, 2021 and 2020. Total service fees amounted to P874, P796 and P792 in 2021, 2020 and 2019, respectively.

BDO Life has an existing Investment Management Agreement with the Parent Bank. For services rendered, BDO Life pays the Parent Bank management fees in cash equivalent to certain percentage based on the average daily balance of the fund and are deducted quarterly from the fund. The total trust fees is presented as part of Trust fees under Other Operating Income account in the Parent Bank's statements of income (see Note 25). Outstanding balances arising from this as of December 31, 2021 and 2020 is included as part of Accounts receivable under Loans and Other Receivables (see Note 11). The total trust fees amounted to P120, P107 and P95 in 2021, 2020 and 2019, respectively.

Certain subsidiaries lease office space and equipment from the Parent Bank. The total rent collected from the subsidiaries is included as part of Miscellaneous under Other Operating Income in the Parent Bank's statements of income (see Note 25). The term of the lease office space is five years and is payable in cash. There are no outstanding receivable from subsidiaries as of December 31, 2021 and 2020. The total rent income amounted to P136, P132 and P124 in 2021, 2020 and 2019, respectively.

(3) Expenses of the Parent Bank

The Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Network, BDOSHI and Averon for its branch operations, amounting to P97 and P104, as of December 31, 2021 and 2020, respectively, which are presented as part of Premises, Furniture, Fixtures and Equipment (see Note 12). Depreciation expense and amortization of the right-of-use assets arising from these transactions amounted to P14, P13 and P13 in 2021, 2020 and 2019, respectively, and presented as part of Occupancy under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). The total interest expense on lease liability is included as part of Interest expense on finance lease liabilities under the Interest Expense account in the Parent Bank's 2021, 2020 and 2019 statement of income which amounted to P7, P7 and P8, respectively (see Note 24). Outstanding balance arising from these transactions amounted to P113, P118 and P129 as of December 31, 2021, 2020 and 2019, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 21).

The total amount paid for repairs and maintenance of leased properties is included as part of Repairs and Maintenance account under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). The total repairs and maintenance expense amounted to P1 in 2021, 2020 and 2019.

The Parent Bank pays for the group life insurance of its employees and life and accident insurance of enrolled qualified remitters of Kabayan accounts to BDO Life. The total amount paid is included as part of Insurance Expense account under Other Operating Expenses in the Parent Bank's statements of income (see Note 25). Total insurance expense amounted to P42, P40 and P39 in 2021, 2020 and 2019, respectively.

In 2020, the Parent Bank purchased receivables from BDO Leasing (see Note 30.3). This resulted to a loss amounting to P290 which was initially booked under Miscellaneous Asset and will be amortized over the term of the loan. The amortized loss incurred was recognized as part of Miscellaneous Expense account under Other Operating Expenses in the Parent Bank's statements of income amounting to P117 and P123 in 2021 and 2020, respectively (see Note 25). The related service fee incurred from the purchase of receivables in 2019 amounted to P13 and was recognized as part of Fees and Commission account under Other Operating Expenses in the Parent Bank's statements of income. No similar transaction occurred in 2021 and 2020.

The Parent Bank pays commission to BDO Network and BDO Private related to the referred trust services to the Parent Bank. Also, the Parent Bank pays for various services rendered by foreign subsidiaries. The amount paid for both commission and services are included as part of Fees and Commission account under Other Operating Expense in the Parent Bank's statements of income. The total payments amounted to P140, P149 and P96 in 2021, 2020 and 2019, respectively.

(4) Derivatives

In 2021 and 2020, the Parent Bank entered into derivative transactions with certain subsidiary in the form of currency forwards and cross currency swaps. As of December 31, 2021 and 2020, the outstanding balance of derivatives assets and liabilities are presented as part of Financial assets at FVTPL under Trading and Investment Securities account (see Note 10.1) and Derivatives with negative fair values under Other Liabilities account in the statements of financial position (see Note 21).

(5) Deposit Liabilities

The total deposits made by the subsidiaries to the Parent Bank during 2021, 2020 and 2019 amounted to P669,405, P559,611 and P706,563, respectively. These are with yearly corresponding withdrawals amounting to P668,833 for 2021, P561,492 for 2020 and P705,306 for 2019. These deposits bear interest rates of 0.00% to 0.50% in 2021, 0.00% to 3.25% in 2020 and 0.00% to 6.65% in 2019. The related interest expense from these deposits are included as part of Interest Expense account on deposit liabilities in the statements of income (see Note 24).

(ii) Other transactions with associates are shown below.

Loans and Advances to Associates

As of December 31, 2021 and 2020, the outstanding secured and unsecured interest-bearing loans and advances to associates amounting to P8,261 and P8,225 for the BDO Unibank Group and P8,261 and P8,043 for the Parent Bank, respectively, and are presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 11).

These loans are payable in cash between seven and a half years to twelve years. The total collections on loans and advances amounted to P444, P75 and P1,987 for BDO Unibank Group and P262, P57 and P1,970 for the Parent Bank in 2021, 2020 and 2019, respectively.

Annual interest rate on these loans ranges from 2.94% to 2.94%, 2.95% to 7.70% and 5.00% to 7.70% for 2021, 2020 and 2019, respectively. The related interest income is presented as part of Interest Income on loans and other receivables in the BDO Unibank Group's statements of income (see Note 23). As of December 31, 2021, 2020 and 2019, there were no impairment losses recognized on these loans and advances.

(iii) Transaction of the Parent Bank with related parties under common ownership is shown below.

The Parent Bank, as a lessee, recognized right-of-use assets related to lease of space from related parties for its branch operations, amounting to P3,911 and P2,417 as of December 31, 2021 and 2020, respectively, which is presented as part of Premises, Furniture, Fixtures and Equipment (see Note 12). Amortization expense on right-of-use assets arising from this transaction, amounting to P185, P39, and P655 in 2021, 2020 and 2019, respectively, and is presented as part of Occupancy under Other Operating Expenses account in the Parent Bank's statement of income (see Note 25).

The total interest expense on lease liabilities from related parties, included as part of Interest expense on finance lease liabilities under the Interest Expense account amounted to P78, P3, and P142 in 2021, 2020 and 2019, respectively, in the Parent Bank's statements of income (see Note 24). Outstanding balances arising from this transaction amounted to P2,822 and P1,710 as of December 31, 2021 and 2020, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 21).

The terms of the lease are from one to 28 years and is payable in cash.

(iv) Key Management Personnel Compensation

The compensation and benefits given to BDO Unibank Group and the Parent Bank's key management are as follows (see Note 26.1):

	BDO Unibank Group		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Salaries and other benefits	P 1,381	P 1,368	P 1,445
Retirement expense	<u>162</u>	<u>221</u>	<u>208</u>
	<u>P 1,543</u>	<u>P 1,589</u>	<u>P 1,653</u>
	Parent Bank		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Salaries and other benefits	P 819	P 849	P 957
Retirement expense	<u>86</u>	<u>157</u>	<u>150</u>
	<u>P 905</u>	<u>P 1,006</u>	<u>P 1,107</u>

28. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group and the Parent Bank's statements of financial position since these are not resources of the BDO Unibank Group [see Note 36(h)].

	BDO Unibank Group		Parent Bank	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Investments	P 1,769,064	P 1,618,325	P 1,223,191	P 1,116,591
Others	<u>9,654</u>	<u>10,804</u>	<u>7,679</u>	<u>7,831</u>
	<u>P 1,778,718</u>	<u>P 1,629,129</u>	<u>P 1,230,870</u>	<u>P 1,124,422</u>

In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

- (a) Investment in government securities which are shown as part of Investment securities at amortized cost with a total face value of P18,435 and P15,735 as of December 31, 2021 and 2020 (see Note 10.3), respectively, in BDO Unibank Group and, P12,178 and P10,778 as of December 31, 2021 and 2020, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,
- (b) A certain percentage of the trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2021 and 2020, the additional reserve for trust functions amounted to P263 and P272 for BDO Unibank Group and P263 and 223, respectively, for the Parent Bank, and is included as part of Surplus Reserves account in statements of changes in equity (see Note 22.4).

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P4,364, P3,811 and P3,532 for the years ended December 31, 2021, 2020 and 2019, respectively, in BDO Unibank Group's statements of income and P3,477, P3,035 and P2,727 for the years ended December 31, 2021, 2020 and 2019, respectively, in the Parent Bank's statements of income (see Note 25).

29. UNIT-LINKED FUNDS

VUL insurance contracts of BDO Life are life insurance policies wherein a portion of the premiums received are invested in VUL funds, which are composed mainly of investments in equity and debt securities. The withdrawal or surrender amount of a VUL policy can be computed by multiplying the total units held by the policyholder by the fund's Net Asset Value per unit, which changes daily depending on the fund's performance.

In 2013, BDO Life obtained the approval from IC to issue VUL products, where payments to policyholders are linked to internal investment funds set up by BDO Life. The VUL funds are managed by the Trust and Investment Group of the Parent Bank.

As of December 31, 2021 and 2020, BDO Life has 12 VUL funds. The details of the investment funds, which comprise the assets backing the unit-linked liabilities, are presented in the table below. The assets and liabilities of these investment funds have been consolidated to the appropriate accounts in the BDO Unibank Group's financial statements.

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and cash equivalents	P 153	P 24
Financial assets at FVTPL	24,592	17,969
Other receivables	<u>36</u>	<u>35</u>
	<u>P 24,781</u>	<u>P 18,028</u>
Liabilities and Equity:		
Other liabilities	P 191	P 216
Net assets attributable to unitholders	<u>24,590</u>	<u>17,812</u>
	<u>P 24,781</u>	<u>P 18,028</u>

30. MERGERS AND ACQUISITIONS

30.1 Subscription of Additional Shares in BDO Remit International Holdings, B.V. (formerly CBN Grupo)

On October 21, 2016, BDO Capital subscribed to an additional 3,273,000 shares in BDO Remit International Holdings, B.V. (BDO RIH) for P170, making BDO Capital the owner of approximately 96% of the outstanding capital stock of BDO RIH (see Note 15.2). The total goodwill recognized amounted to P123 and is presented as part of Goodwill under Other Resources on BDO Unibank Group's statements of financial position (see Notes 15.2 and 15.3).

On December 9, 2020, BDO Capital approved the corporate dissolution and liquidation of BDO RIH and to acquire its assets and assume its liabilities. Since the liabilities to be assumed by BDO Capital is higher than the assets it will absorb, BDO Capital also approved the additional investment in BDO RIH amounting to P276. This was approved by the BSP on November 9, 2021 and by the BDO RIH shareholders on February 2, 2022 (see Note 33.2).

30.2 Merger of BDO Nomura and BDO Securities

On June 23, 2020, the Parent Bank and Nomura Asia came to an agreement and signed a term sheet on the proposed buy-out of Nomura Asia's 49% equity stake in BDO Nomura. The BOD of the Parent Bank authorized BDO Capital to acquire the shares of Nomura Asia and the transaction was completed on November 25, 2020 with settlement amount of P42.

On July 2, 2020, the BOD of BDO Nomura and BDO Securities, at their respective meetings, approved the merger of the two companies, with BDO Securities as the surviving entity, and the Plan of Merger. The same were likewise approved by the respective stockholders of the two entities on July 7, 2020. The merger was approved by the SEC on November 25, 2020 and was implemented on December 1, 2020.

30.3 Sale of Assets of BDO Leasing

On May 25, 2019, the BOD of BDO Unibank approved the restructuring of the leasing business of the BDO Unibank Group. Under the restructuring, a new, privately-held company BDO Finance was incorporated on December 9, 2019 to carry on the leasing business of the BDO Unibank Group. BDO Leasing, on the other hand, has sold substantially all of its assets to BDO Unibank, BDO Finance and other subsidiaries.

On October 9, 2020, the BOD of BDO Finance approved the purchase of the BDO Rental shares owned by BDO Leasing. The sale was consummated through a Deed of Absolute Sale of Shares with BDO Rental becoming a wholly-owned subsidiary of BDO Finance. BDO Finance started its commercial operations on October 19, 2020. BDO Leasing remains a listed entity and will be re-purposed into a holding company, upon approval by the regulators.

30.4 Dissolution of BDO Remit Italia

On June 13, 2020, BDO Remit Italia has completed its liquidation and made partial repatriation of funds to BDO Strategic Holdings, Inc. amounting to P7. Final capital return was made on July 1, 2021 amounting to P51.

31. TAXES

31.1 Current and Deferred Taxes

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the BDO Unibank Group:

- Regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the BDO Unibank Group and the Parent Bank, was lower by P1,378 and P1,300, respectively, than the amount presented in the 2020 financial statements, and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured at 25% income tax rate. This resulted in a decline in the recognized deferred tax asset in 2020 for BDO Unibank Group and the Parent Bank by P684 and P650, respectively. Such adjustment was charged to 2021 profit or loss of BDO Unibank Group and Parent Bank by P1 and P3 and in other comprehensive income by P683 and P647, respectively.

The components of tax expense for the years ended December 31 follow:

	<u>BDO Unibank Group</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 25% and 30%	P 9,422	P 14,762	P 12,310
Minimum corporate income tax (MCIT) at 1% and 2%	(5)	33	7
Adjustment in 2020 income taxes due to change in income tax rate	(1,378)	-	-
Adjustment to current income tax from prior year	(13)	-	-
Final taxes at 20%, 15%, 10% and 7.5%	<u>2,689</u>	<u>2,286</u>	<u>2,248</u>
	10,715	17,081	14,565
Deferred tax expense (income) relating to origination and reversal of temporary differences			
	2,213	695	454
Effect of the change in income tax rate	1	-	-
Application of previously unrecognized MCIT	<u>(22)</u>	<u>-</u>	<u>-</u>
	<u>P 12,907</u>	<u>P 17,776</u>	<u>P 15,019</u>

	BDO Unibank Group		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses	(P 1,754)	P 321	(P 1,016)
Effect of the change in income tax rate	683	-	-
Fair value of financial assets at FVOCI	4	-	(30)
Revaluation increment	(4)	-	(23)
	<u>(P 1,071)</u>	<u>P 321</u>	<u>(P 1,069)</u>
	Parent Bank		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
RCIT at 25% and 30%	P 8,411	P 13,998	P 11,219
Final taxes at 20%, 15%, 10% and 7.5%	2,165	1,801	1,745
Adjustment in 2020 income taxes due to change in income tax rate	(1,300)	-	-
Adjustment to current income tax from prior year	(13)	-	-
	<u>9,263</u>	<u>15,799</u>	<u>12,964</u>
Deferred tax expense relating to origination and reversal of temporary differences	2,112	483	412
Effect of the change in income tax rate	<u>3</u>	<u>-</u>	<u>-</u>
	<u>P 11,378</u>	<u>P 16,282</u>	<u>P 13,376</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses	(P 1,649)	P 314	(P 960)
Effect of the change in income tax rate	647	-	-
Fair value of financial assets at FVOCI	12	-	-
Revaluation increment	(4)	-	(23)
	<u>(P 994)</u>	<u>P 314</u>	<u>(P 983)</u>

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below and in the succeeding page.

	BDO Unibank Group		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Tax on pretax profit at 25% and 30%	P 13,940	P 13,809	P 17,756
Adjustment for income subjected to lower income tax rates	(561)	(879)	(1,072)
Adjustment in 2020 income taxes due to change in income tax rate	(1,377)	-	-
Tax effects of:			
Income exempt from tax	(2,884)	(4,062)	(4,325)
Non-deductible expenses	4,245	9,736	3,557
Deductible temporary differences not recognized	(312)	(903)	(551)
Application of previously unrecognized MCIT	(29)	-	(15)
Adjustment to current income tax from prior year	(13)	-	-
Net operating loss carryover (NOLCO) not recognized	4	91	(89)
Utilization of previously unrecognized NOLCO	-	(1)	(25)
Others	(106)	(15)	(217)
Tax expense reported in profit or loss	<u>P 12,907</u>	<u>P 17,776</u>	<u>P 15,019</u>

	Parent Bank					
	2021		2020		2019	
Tax on pretax profit at 25% in 2021 and 30% in 2020 and 2019	P	13,515	P	13,467	P	17,283
Adjustment for income subjected to lower income tax rates	(	436)	(	865)	(	872)
Adjustment in 2020 income taxes due to change in income tax rate	(	1,297)	-	-	-	-
Tax effects of:						
Income exempt from tax	(	4,120)	(	4,969)	(	5,729)
Non-deductible expenses		4,103		9,519		3,305
Deductible temporary differences not recognized	(	374)	(	870)	(	611)
Adjustment to current income tax from prior year	(	13)	-	-	-	-
Tax expense reported in profit or loss	P	11,378	P	16,282	P	13,376

Components of the net deferred tax assets (see Note 15) as of December 31 follow:

	Statements of Financial Position							
	BDO Unibank Group		Parent Bank					
	2021	2020	2021	2020				
Deferred tax assets:								
Allowance for impairment	P	4,088	P	6,376	P	3,747	P	5,858
Unamortized past service costs		2,577		2,894		2,280		2,732
Retirement obligation (net of OCI)		606	(	803)		568	(	778)
Recognition of right-of-use assets and lease liabilities		67		23		47		21
Others		66		80		-		-
		7,404		8,570		6,642		7,833
Deferred tax liabilities:								
Revaluation increment		337		409		335		408
Capitalized interest		33		42		33		42
Retirement asset (net of OCI)		-		-		-		-
Changes in fair values of financial assets at FVOCI		11		6		12		-
Lease income differential		2		2		-		-
Others		253		200		-		-
		636		659		380		450
Net deferred tax assets	P	6,768	P	7,911	P	6,262	P	7,383

Movements in net deferred tax assets for the years ended December 31 follow:

BDO Unibank Group

	Statements of Income					
	2021		2020		2019	
Allowance for impairment	P	2,289	P	160	P	24
Unamortized past service costs		317	(	591)	(	966)
Retirement obligation	(	405)		1,059		1,292
Recognition of right-of-use assets and lease liabilities	(	45)		47	(	70)
Lease income differential		-		-		146
Capitalized interest	(	9)	(	3)	(	3)
Others		67		23		31
Deferred tax expense (income)	P	2,214	P	695	P	454

Parent Bank

	Statements of Income					
	2021		2020		2019	
Retirement obligation	(P	412)	P	1,012	P	1,313
Unamortized past service costs		451	(	576)	(	974)
Lease income differential		-		-		146
Allowance for impairment		2,111		-		-
Recognition of right-of-use assets and lease liabilities	(	26)		49	(	70)
Capitalized interest	(	9)	(	2)	(	3)
Deferred tax expense	P	2,115	P	483	P	412

	Statements of Comprehensive Income											
	BDO Unibank Group			Parent Bank								
	2021	2020	2019	2021	2020	2019						
Movements in actuarial losses	(P	1,004)	P	321	(P	1,016)	(P	934)	P	314	(P	960)
Movements in fair value of financial assets at FVOCI		5		-	(	30)		12		-		-
Movements in revaluation increment	(	72)		-	(	23)	(	72)		-	(	23)
Deferred tax income (income)	(P	1,071)	P	321	(P	1,069)	(P	994)	P	314	(P	983)

The BDO Unibank Group is subject to MCIT, which is computed at 1% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO and MCIT with the corresponding validity periods are as follows for the BDO Unibank Group (nil for the Parent Bank):

<u>Year</u>	<u>NOLCO</u>	<u>MCIT</u>	<u>Valid Until</u>
2021	P -	P 1	2024
2020	-	1	2025
	<u>P -</u>	<u>P 2</u>	

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2021 and 2020 are as follows:

	BDO Unibank Group			
	2021		2020	
	Tax Base	Tax Effect	Tax Base	Tax Effect
Allowance for impairment	P 57,101	P 14,275	P 43,447	P 13,034
NOLCO	-	-	35	11
MCIT	2	2	33	32
Others	<u>1,037</u>	<u>259</u>	<u>1,232</u>	<u>370</u>
	P 58,140	P 14,536	P 44,747	P 13,447

	Parent Bank			
	2021		2020	
	Tax Base	Tax Effect	Tax Base	Tax Effect
Allowance for impairment	P 56,568	P 14,142	P 42,875	P 12,862
Others	1,021	255	1,021	306
	<u>P 57,589</u>	<u>P 14,397</u>	<u>P 43,896</u>	<u>P 13,168</u>

The BDO Unibank Group and the Parent Bank continue claiming itemized deduction for income tax purposes.

31.2 Gross Receipts Tax

Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code, is imposed on banks, non-banks financial intermediaries and finance companies (per RA 9238).

GRT is levied on the BDO Unibank Group's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income (per RA 9337).

31.3 Documentary Stamp Tax

Documentary stamp tax (DST) (at varying rates) is imposed on the following:

- (a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- (b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other notes payable at sight or on demand;
- (c) Acceptance of bills of exchange and letters of credit; and,
- (d) Bills of lading or receipt.

On December 19, 2017, RA No. 10963 known as Train Law was passed amending the rates of DST, the significant provisions of which are summarized as follows:

- (a) On every issue of debt instruments, there shall be collected a DST of one peso and fifty centavos on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.
- (b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of one peso and 50 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

- (c) On all bills of exchange or drafts, there shall be collected a DST of 60 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.
- (d) The following instruments, documents and papers shall be exempt from DST:
- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
 - Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
 - Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
 - Fixed income and other securities traded in the secondary market or through an exchange;
 - Derivatives including repurchase agreements and reverse repurchase agreements;
 - Bank deposit accounts without a fixed term or maturity; and,
 - Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

31.4 Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under the revised Securities Regulation Code Rule 68.

The Parent Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

32. EARNINGS PER SHARE

Basic earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net profit attributable to shareholders of the Parent Bank	P 42,791	P 28,246	P 44,194
Dividends on preferred shares	<u>(340)</u>	<u>(339)</u>	<u>(339)</u>
Net profit available to common shares	42,451	27,907	43,855
Divided by the weighted average number of outstanding common shares (in millions)	<u>4,385</u>	<u>4,383</u>	<u>4,378</u>
Basic earnings per share	<u>P 9.68</u>	<u>P 6.37</u>	<u>P 10.02</u>

Diluted earnings per share attributable to shareholders of the BDO Unibank Group were computed as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net profit attributable to shareholders of the Parent Bank	P 42,791	P 27,907*	P 43,855*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	4,385	4,383	4,378
Potential common shares from assumed conversion of preferred shares	43	*	*
Potential common shares from stock option plan	<u>**</u>	<u>**</u>	<u>**</u>
Total weighted average number of common shares after assumed conversion of convertible preferred shares	<u>4,428</u>	<u>4,383</u>	<u>4,378</u>
Diluted earnings per share	<u>P 9.66</u>	<u>P 6.37</u>	<u>P 10.02</u>

* Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred share as these were not assumed to be converted.

** Potential common shares from assumed conversion of stock option plan made through primary issuance do not significantly affect the computation of diluted earnings per share.

33. EVENTS AFTER THE REPORTING PERIOD

33.1 Dividend

On January 29, 2022, the Parent Bank's BOD approved the declaration of annual cash dividends on preferred shares "Series A" at the rate of 6.50% per annum of the par value for a total dividend of P339. The dividends will be paid within 60 days from dividend declaration date.

33.2 Dissolution of BDO RIH

On February 2, 2022, the shareholders of BDO RIH approved the dissolution of the company, additional capital infusion of the shareholders, completion of all acts to implement the dissolution, appointment of liquidator and custodian and the stepping down of the Board of Directors (see Note 30.1).

33.3 Issuance of Fixed Rate Peso Bonds

On January 28, 2022, the Parent Bank issued P52,700 million Peso-denominated fixed rate Association of Southeast Asian Nations (ASEAN) Sustainability Bonds under its P365 billion bond program. The bonds have a tenor of two years and a fixed rate of 2.90% per annum.

34. COMMITMENTS AND CONTINGENCIES

34.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2021, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

34.1.1 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) regarding the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes. RR 4-2011 prescribed a special method of allocation of cost and expenses for banks such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and Foreign Currency Deposit Unit (FCDU)/expanded FCDU or offshore banking unit.

On April 6, 2015, Consortium of Banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Writ of Preliminary Injunction, docketed as Civil Case No. 15-287 with the Regional Trial Court (RTC) of Makati. BDO Unibank Inc., and BDO Private Bank, Inc. are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR 4-2011.

In the Petition, the Petitioners sought to annul RR No. 4-2011 as there is no provision in the National Internal Revenue Code which authorized the issuance of RR 4-2011 that a bank's cost and expenses be allocated to its different income streams.

The Petitioners also claimed that RR 4-2011 deprived them of their legal right under the Tax Code to claim ordinary and necessary expenses as tax deductions.

On April 8, 2015, the RTC of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR 4-2011. Subsequently, the RTC of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Petitioners, including the issuance of preliminary assessment notice or final assessment notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari (“Motion for Extension”) before the Supreme Court. The Supreme Court granted the Motion for Extension.

On August 9, 2018, DOF and BIR filed a Petition for Review on Certiorari dated August 1, 2018 (“Petition”) assailing the RTC decision based on the following grounds: (i) the RTC has no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR; (ii) the Court of Tax Appeals has the exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and, (iii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition. On August 5, 2019, the Consortium of Banks filed their Comment on/Opposition to the Petition for Review on Certiorari.

All other Respondents have filed their respective Comments and/or Oppositions to the Petition.

The case remains pending as of December 31, 2021.

34.1.2 First e-Bank

In 2002, First e-Bank (“FeB”) experienced liquidity problems prompting PDIC to invite several banks to propose a solution for FeB’s bailout. PDIC entered into contract with BDO Unibank where in consideration of the assumption by BDO Unibank of FeB’s liabilities in the maximum amount of P10,000, PDIC will provide BDO Unibank P10,000 of Financial Assistance and PDIC will receive FeB’s assets to recover said financial assistance.

About P5,000 of the financial assistance was released to BDO Unibank and the remaining P5,000 was deposited in escrow with BDO - TIG in accordance with the escrow agreement dated October 23, 2002 entered into by BDO Unibank, PDIC, and BDO - TIG.

In August 2016, PDIC authorized the release of a total amount of P4,650 from escrow inclusive of proportional interest. However, as of August 26, 2016, the amount of P1,224 remains in escrow, which includes: (i) P602, which covers assets BDO Unibank still considers capable of delivery worth P214 and the remaining assets PDIC classified as undeliverable; and (ii) all interest earnings thereon. Unable to agree on the release of the remaining amount in escrow, on September 20, 2016, the PDIC filed a Complaint for Specific Performance and Damages against BDO Unibank, which case was raffled to RTC Makati City Branch 60.

On October 14, 2016, BDO Unibank filed its Answer to the Complaint affirming that it has assumed P10,000 in liabilities of FeB and is thus entitled to release of the remaining escrow of P1,224.

In a judgement dated May 31, 2018, RTC Makati dismissed the complaint, granted BDO Unibank's counterclaim and ordered BDO - TIG to immediately release the remaining escrow amount, plus interests, to BDO Unibank. PDIC filed Motion for Reconsideration but the same was denied by RTC Makati. PDIC filed Notice of Appeal. In the Decision dated June 15, 2020, the Court of Appeals (CA) dismissed PDIC's appeal. PDIC filed Motion for Reconsideration but the same was denied by the CA in a Resolution dated January 25, 2021. PDIC filed Petition for Review with the Supreme Court.

On June 18, 2018, the Parent Bank received an amount of P1,243 for the full termination of escrow. As of December 30, 2021, the difference between the amount received and the balance of the amount in escrow amounts to P572. This is presented as part of Others under Other Liabilities account and is not yet recognized as income due to the pending resolution of the Petition for Review filed by PDIC (see Note 21).

The case is still pending before the Supreme Court as of December 31, 2021.

34.1.3 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2021, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

34.2 Lease Commitments – as Lessor

34.2.1 Finance Leases

BDO Unibank Group, as a lessor, enters into a finance leases covering various equipment and vehicles with lease term ranging from one to more than five years. To manage its risks over these finance leases, the BDO Unibank Group retains its legal title over the underlying assets, and are used as securities over the finance lease receivables. Future minimum lease payments receivable (MLPR) under this finance lease together with the present value of net minimum lease payments receivable (NMLPR) follow:

	2021		2020	
	<u>Future MLPR</u>	<u>PV of NMLPR</u>	<u>Future MLPR</u>	<u>PV of NMLPR</u>
Within one year	P 770	P 767	P 239	P 238
After one year but not more than two years	725	705	189	183
After two years but not more than three years	616	506	138	123
After three years but not more than five years	224	129	106	66
More than five years	<u>3</u>	<u>2</u>	<u>10</u>	<u>6</u>
Total MLPR	2,338	2,109	682	616
Unearned lease income	(229)	-	(66)	-
Present value of MLPR	<u>P 2,109</u>	<u>P 2,109</u>	<u>P 616</u>	<u>P 616</u>

34.2.2 Operating Leases

The BDO Unibank Group and the Parent Bank entered into various operating leases covering land, offices and equipment with lease terms ranging from less than 1 year to 5.5 years. Operating lease income, presented under Rental account as part of Other Operating Income and Expenses in the BDO Unibank Group's statements of income for the years ended December 31, 2021, 2020 and 2019, amounted to P1,269, P1,430 and P1,526, respectively, for the BDO Unibank Group and P482, P514 and P523, respectively, for the Parent Bank (see Note 25).

Future minimum rental receivables as of December 31, 2021 under operating leases follow:

	BDO	
	<u>Unibank Group</u>	<u>Parent Bank</u>
Within one year	P 1,124	P 471
More than one year to two years	678	315
More than two years to three years	470	233
More than three years to four years	206	165
More than four years to five years	133	70
More than five years	<u>89</u>	<u>7</u>
	<u>P 2,700</u>	<u>P 1,261</u>

35. CONTINUING IMPACT OF COVID-19

The year 2021 was marked by sustained efforts to mitigate the impact of the pandemic and learning to operate with the reality of COVID-19. Following were the measures undertaken by the BDO Unibank Group during the year:

- Since October 2020, branches continued to operate until 4pm, close to operating at pre-pandemic banking schedules, with certain adjustments made to comply with temporary stricter guidelines imposed by the Inter-Agency Task Force (IATF) and local government units;
- Digital banking channels, including BDO Pay which was introduced in early 2021, continued to be enhanced to provide increased and alternative access for clients;
- To further strengthen cybersecurity, the Parent Bank institutionalized vulnerability management measures by performing regular vulnerability assessments and penetration testing. A Security Operations Center (SOC), supplemented with threat intelligence providers, is in place to continuously monitor and immediately respond to IT security events and incidents;
- Dual site processing capabilities and team redundancies remained in place to ensure business continuity; and,
- Occupational safety and health standards continued to be maintained to provide a safe and sanitized environment for both customer and employees through the strict observance of health and safety protocols. Vaccination efforts and periodic testing for employees continued to be pursued to minimize infection within the workplace.

With these measures in place to adapt to and address pandemic-related issues in 2021, the Parent Bank saw more stable operations and increasingly positive results as the economy continued with its recovery. Overall net impact is an increase in net profit of 52% and 49% for BDO Unibank Group and the Parent Bank, respectively, compared to that of 2020.

36. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) *Selected Financial Performance Indicators*

The following are some indicators of the of BDO Unibank Group and Parent Bank's financial performance.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BDO Unibank Group</u>			
Return on common equity*:			
$\frac{\text{Net profit}}{\text{Average common equity}}$	10.5%	7.6%	12.8%
Return on average equity*:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	10.4%	7.5%	12.6%
Return on average resources*:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.2%	0.9%	1.4%
Net interest margin*:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.0%	4.4%	4.1%
<u>Parent Bank</u>			
Return on common equity*:			
$\frac{\text{Net profit}}{\text{Average total common equity}}$	10.5%	7.6%	12.8%
Return on average equity*:			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	10.4%	7.6%	12.7%
Return on average resources*:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.3%	0.9%	1.5%
Net interest margin*:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.0%	4.4%	4.1%

* *Average asset, capital, and interest-earning assets are computed as the simple average of outstanding balance of assets, capital, and interest-earning assets at average of December 2020, March 2021, June 2021, September 2021 and December 2021. (5 data points)*

(b) *Capital Instruments Issued*

As of December 31, 2021 and 2020, the BDO Unibank Group has only two classes of capital stock, which are common and preferred shares.

(c) *Significant Credit Exposures for Loans*

The BDO Unibank Group and Parent Bank's concentration of credit as to industry for its receivables from customer's gross of allowance for ECL below (amounts in millions) are disclosed in Note 4.3.3.

BDO Unibank Group	2021		2020	
	Amount	Percentage	Amount	Percentage
Financial and insurance activities	P 397,823	16.6%	P 335,487	14.8%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	356,129	14.8%	315,727	13.9%
Real estate activities	307,048	12.8%	308,681	13.6%
Wholesale and retail trade	282,446	11.8%	271,485	12.0%
Electricity, gas, steam and air-conditioning supply	282,036	11.8%	265,210	11.7%
Manufacturing	206,445	8.6%	195,586	8.6%
Transportation and storage	88,043	3.7%	92,578	4.1%
Arts, entertainment and recreation	77,010	3.2%	77,734	3.4%
Construction	68,951	2.9%	69,067	3.1%
Information and communication	42,845	1.8%	34,477	1.5%
Accommodation and food service activities	39,937	1.7%	39,699	1.8%
Education	37,199	1.5%	32,296	1.4%
Human health and social service activities	30,653	1.3%	29,859	1.3%
Water supply, sewerage, waste management and remediation activities	26,912	1.1%	24,017	1.1%
Agriculture, forestry and fishing	15,266	0.6%	15,011	0.7%
Mining and quarrying	10,175	0.4%	16,172	0.7%
Professional, scientific, and technical activities	9,642	0.4%	10,255	0.5%
Administrative and support services	7,592	0.3%	8,237	0.4%
Public administrative and defense; compulsory social security	693	0.0%	723	0.0%
Activities of extraterritorial and organizations and bodies	-	0.0%	5	0.0%
Other service activities	113,348	4.7%	121,396	5.4%
P	2,400,193	100%	P 2,263,702	100%

	2021		2020	
	Amount	Percentage	Amount	Percentage
<u>Parent Bank</u>				
Financial and insurance activities	P 397,733	16.9%	P 334,720	15.1%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	347,713	14.8%	307,500	13.8%
Real estate activities	308,053	13.1%	310,133	13.9%
Electricity, gas, steam and air-conditioning supply	281,990	12.0%	265,067	11.9%
Wholesale and retail trade	278,173	11.8%	268,590	12.1%
Manufacturing	205,679	8.7%	195,035	8.8%
Transportation and storage	88,607	3.8%	93,701	4.2%
Arts, entertainment and recreation	76,004	3.3%	76,699	3.5%
Construction	68,108	2.9%	68,752	3.1%
Information and communication	42,634	1.8%	34,276	1.5%
Accommodation and food service activities	39,688	1.7%	39,484	1.8%
Human health and social service activities	30,392	1.3%	29,693	1.3%
Water supply, sewerage, waste management and remediation activities	26,870	1.2%	24,014	1.1%
Mining and quarrying	10,122	0.4%	16,150	0.7%
Agriculture, forestry and fishing	14,600	0.6%	14,368	0.6%
Professional, scientific, and technical activities	9,601	0.4%	10,241	0.5%
Administrative and support services	7,430	0.3%	8,182	0.4%
Education	4,373	0.2%	5,043	0.2%
Public administrative and defense; compulsory social security	693	0.0%	723	0.0%
Activities of extraterritorial and organizations and bodies	-	0.0%	5	0.0%
Other service activities	113,088	4.8%	122,118	5.5%
	<u>P 2,351,551</u>	<u>100%</u>	<u>P 2,224,494</u>	<u>100%</u>

(d) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below:

	2021		
	Performing	Non-Performing	Total Loan Portfolio
<u>BDO Unibank Group</u>			
Gross carrying amount			
Corporate	P 1,860,981	P 21,443	P 1,882,424
Consumer	468,097	49,672	517,769
Allowance for ECL	(31,001)	(34,258)	(65,259)
Net carrying amount	<u>P 2,298,077</u>	<u>P 36,857</u>	<u>P 2,334,934</u>
<u>Parent Bank</u>			
Gross carrying amount			
Corporate	P 1,855,300	P 21,443	P 1,876,743
Consumer	428,553	46,255	474,808
Allowance for ECL	(30,535)	(32,739)	(63,274)
Net carrying amount	<u>P 2,253,318</u>	<u>P 34,959</u>	<u>P 2,288,277</u>

	2020		
	Performing	Non- Performing	Total Loan Portfolio
<u>BDO Unibank Group</u>			
Gross carrying amount			
Corporate	P 1,745,057	P 19,253	P 1,764,310
Consumer	455,528	43,864	499,392
Allowance for ECL	(27,878)	(28,542)	(56,420)
Net carrying amount	<u>P 2,172,707</u>	<u>P 34,575</u>	<u>P 2,207,282</u>
<u>Parent Bank</u>			
Gross carrying amount			
Corporate	P 1,741,115	P 19,253	P 1,760,368
Consumer	423,904	40,223	464,127
Allowance for ECL	(27,143)	(26,846)	(53,989)
Net carrying amount	<u>P 2,137,876</u>	<u>P 32,630</u>	<u>P 2,170,506</u>

Non-performing loans (NPL) included in the total loan portfolio of the BDO Unibank Group and the Parent Bank as of December 31, 2021 and 2020 are presented below as net of specific allowance for impairment in compliance with BSP Circular No. 941, *Amendments to Regulations on Past Due and Non-Performing Loans*.

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
NPL	P 69,821	P 61,644	P 66,601	P 58,200
Allowance for impairment	(33,498)	(27,822)	(32,149)	(26,293)
	<u>P 36,323</u>	<u>P 33,822</u>	<u>P 34,452</u>	<u>P 31,907</u>

Per MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

As at December 31, 2021 and 2020, the non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Gross NPLs	P 69,821	P 61,644	P 66,601	P 58,200
NPLs fully covered by allowance for impairment	(9,689)	(8,162)	(9,359)	(7,071)
	<u>P 60,132</u>	<u>P 53,482</u>	<u>P 57,242</u>	<u>P 51,129</u>

Restructured loans are generally considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six months; or (b) written off.

Restructured loans amount to P143,337 and P68,643 for BDO Unibank Group and P142,062 and P68,246 for Parent Bank as of December 31, 2021 and 2020, respectively. The related allowance for credit loss of such loans amounted to P21,137 and P7,159 for BDO Unibank Group and P20,578 and P7,025 for Parent Bank as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank as reported to BSP were 2.80% and 1.46%, and 2.72% and 1.41%, respectively. As of December 31, 2020, gross and net NPL ratios of the BDO Unibank Group and the Parent Bank were 2.65% and 1.45%, and 2.54% and 1.39%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2021	2020	2021	2020
Secured:				
Real estate mortgage	P 327,719	P 327,568	P 320,993	P 322,764
Chattel mortgage	94,875	104,264	92,748	103,629
Other securities	83,797	90,842	81,998	89,721
	506,391	522,674	495,739	516,114
Unsecured	<u>1,893,802</u>	<u>1,741,028</u>	<u>1,855,812</u>	<u>1,708,381</u>
	<u>P 2,400,193</u>	<u>P 2,263,702</u>	<u>P 2,351,551</u>	<u>P 2,224,495</u>

(f) *Information on Related Party Loans*

In the ordinary course of business, the Parent Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Parent Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Parent Bank and/or any of its lending and nonbank financial subsidiaries. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the BDO Unibank Group and the Parent Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 as reported to the BSP:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Total DOSRI loans	P 36,334	P 25,371	P 36,331	P 25,366
Unsecured DOSRI loans	1,919	1,799	1,919	1,799
Past due DOSRI loans	3	3	3	3
Non-performing DOSRI loans	12	11	12	11
% of DOSRI loans to total loan portfolio	1.51%	1.12%	1.54%	1.14%
% of unsecured DOSRI loans to total DOSRI loans	5.28%	7.09%	5.28%	7.09%
% of past due DOSRI loans to total DOSRI loans	0.01%	0.01%	0.01%	0.01%
% of non-performing DOSRI loans to total DOSRI loans	0.03%	0.05%	0.03%	0.05%

DOSRI loans of the BDO Unibank Group and the Parent Bank bear annual interest rates of 0.00% to 9.00% in 2021, 2020 and 2019 (except for credit card receivables which bear a monthly interest rate of 0.00% to 3.64% in 2021, in 2020 and 2019).

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to related parties (inclusive of DOSRI) as of December 31 as reported to the BSP:

	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Total Related Party loans	P 111,024	P 104,916	P 110,966	P 104,372
Unsecured Related Party	66,036	60,568	66,036	60,568
Past due Related Party	3	54	3	54
Non-performing Related Party	12	62	12	62
% of Related Party loans to total loan portfolio	4.63%	4.63%	4.72%	4.69%
% of unsecured Related Party loans to total Related Party loans	59.48%	57.73%	59.51%	58.03%
% of past due Related Party loans to total Related Party loans	0.00%	0.05%	0.00%	0.05%
% of non-performing Related Party loans to total Related Party loans	0.01%	0.06%	0.01%	0.06%

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

Under BSP regulations, total outstanding exposures to each of the Parent Bank's subsidiaries and affiliates shall not exceed 10.0% of the BDO Unibank Group's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Bank.

As of December 31, 2021 and 2020, the BDO Unibank Group and Parent Bank is in compliance with these regulatory requirements.

(g) Secured Liabilities and Assets Pledged as Security

The aggregate amount of resources pledged as security and secured liabilities in 2021 totaled to P1,320 and P1,088 for the BDO Unibank Group and nil for the Parent Bank, respectively. On 2020, the BDO Unibank Group and the Parent Bank did not have any secured liabilities or assets pledged as security.

(h) Contingencies and Commitments arising from Off-Balance Sheet Items

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group's financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2021 and 2020, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

The summary of BDO Unibank Group's commitments and contingent accounts is shown below.

	Notes	<u>BDO Unibank Group</u>		<u>Parent Bank</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Trust department accounts	28	P 1,778,718	P 1,629,129	P 1,230,870	P 1,124,422
Committed credit lines	4.3.2	433,247	424,703	433,247	424,703
Forward exchange sold		190,055	166,992	164,674	147,543
Forward exchange bought		177,434	155,430	153,492	133,914
Unused commercial letters of credit	4.3.2	75,758	52,029	75,758	52,029
Spot exchange sold		15,646	15,368	15,618	15,099
Spot exchange bought		9,233	3,973	9,205	3,705
Bills for collection		8,673	14,625	8,673	14,625
ROP warrants		8,475	8,475	8,475	8,475
Interest rate swap receivable		6,993	7,956	4,493	4,254
Interest rate swap payable		6,993	7,956	4,493	4,254
Other contingent accounts		4,710	3,278	3,049	3,038
Export letters of credit confirmed		4,644	6,293	4,644	6,293
Outstanding guarantees issued		4,202	3,469	4,202	3,469
Late deposits/payments received		461	1,262	450	1,252